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SWITCHING DIPLOMATIC RECOGNITION BETWEEN TAIWAN AND CHINA

ECONOMIC AND SOCIAL IMPACT

Edited by
Chien-Huei Wu

Switching Diplomatic Recognition Between Taiwan and China

This book examines the economic and social impacts of switching diplomatic relations from Taiwan to China, and vice versa, and investigates how China achieves its foreign policy objective of dissuading Taiwan's diplomatic partners and other third parties from engaging with Taiwan.

Highlighting the critical regions of Africa, Latin America and the Caribbean, and Oceania, where the diplomatic competition between Taiwan and China is fierce, the contributions to this book analyze China's promises of economic benefits, threats of economic coercion and the perils of its foreign aid to the countries in these regions in pursuit of its anti-Taiwan policy. In addition to the competition of formal diplomatic ties, it also examines how existing informal relations have influenced Taiwan's increasing interactions with Central and Eastern European countries. Finally, the book explores how Taiwan's advantage in technology sectors has successfully been translated into economic leverage for Taiwan's international diplomacy.

Built upon the interdisciplinary expertise and collaborative efforts of 14 international scholars, this book will be a valuable resource to scholars and students of Taiwan studies, China studies and international relations.

Chien-Huei Wu is Research Fellow and Professor at the Institute of European and American Studies, Academia Sinica, Taiwan. His research interests cover US–China relations, EU external relations law and international economic law.

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Economic and Social Impact

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The realization of this edited volume has been an unusual but pleasant journey. This research project included both established scholars and young doctoral student and employed both quantitative and qualitative methods. Drawing upon the expertise of econometrics, political science, international law and anthropology, as well as technology management and transportation and logistics management, this edited volume presents a strong example of interdisciplinary and collaborative work. Over the past three years, the contributors met regularly, presenting works and exchanging views. During the period of the COVID-19 pandemic, and thanks to communication technology, a number of video conferences spanning different continents and different time zones were held. The team members worked relentlessly, and finally, our efforts have borne abundant fruit.

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At the time of writing, Honduras has just decided to switch its diplomatic recognition from Taipei to Beijing and economic interests are said to be a key concern. The promise of trade preference and economic growth is hardly realized as we detail in this edited volume. We hope the evidence of this edited volume sheds some light for policymakers in considering their diplomatic switch and helps them somberly reflect on possible social and economic impacts, the pros and cons. Looking ahead, the long way for Taiwan to return to the international scene is still challenging and more support is needed from the international community. In the wake of Russia's invasion of Ukraine, China's security threat toward Taiwan is even more intimidating. It is a difficult time both for Taiwan and for the liberal democratic world, but hope never dies.

Chien-Huei Wu
May 19, 2023, Hamburg, Germany

Introduction

Studying the diplomatic competition of Taipei and Beijing in new geopolitics and its contribution

Chien-Huei Wu

Taiwan has struggled for diplomatic recognition and international participation ever since the adoption of United Nations General Assembly Resolution 2758 in 1971, which stated that the government of the People's Republic of China (PRC, or China) was the only legitimate government representing China. Since then, Taiwan, under the official title of the Republic of China (ROC), has lost diplomatic recognition from 40 countries, including the United States on January 1, 1979. The losses have continued for Taiwan, while the PRC has consistently sought to sabotage Taipei's efforts to maintain ties with third countries and participate in international organizations and forums. Due to China's political and economic allure and its use of coercion, the number of countries that recognize Taiwan has continued to shrink, falling from 29 to 13 between 2000 and 2023, with Nicaragua and Honduras being the most recent losses. Fierce cross-strait diplomatic rivalries rage on, especially in traditional Taiwanese strongholds such as Latin America and the Caribbean, and Oceania. Taipei is attempting to hold on to its existing diplomatic partners and establish new ties, while Beijing is encroaching upon its relationships with promises of aid, trade and investment. As the book comes into print, Nauru just announced its decision to switch to Beijing on 15 January 2024 and turned Taiwan's ally down to 12, which is obvious a retaliation against the victory of William Lai, the candidate of Democratic Progressive Party (DPP) in the 2024 presidential election.

This competition is fueled by Beijing's attempts at power projection in strategically important regions and its drive for spheres of influence. With a view to deepening and strengthening its influence in Africa, a continent that provided decisive support for China's admission to the UN in 1971, the Forum on China–Africa Cooperation (FOCAC) was established in 2000. Ministerial meetings were held in 2000 and 2003, and declarations were adopted under the framework of the FOCAC. In 2006, China issued a white paper on African policy, representing the first time it had produced such a policy document for a specific country or region (China Report, 2007). The forum was upgraded to summit level that year, with the gathering of 41 heads of state from 48 African countries. The event provoked concern in Europe, and the European Union (EU) responded by calling for trilateral

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dialogue with African countries and China, a proposal that was met with a lukewarm response from the Chinese side (European Commission, 2008).

In the wake of the global financial crisis in 2008, China attempted to combine economic relations with strategic objectives in Central and Eastern Europe. It established a cooperation framework – the "16+1" format – in 2012. This originally included 11 EU member states and five Western Balkan countries. Greece joined in 2019 following heavy Chinese investment, including its acquisition of a 51% stake in the Piraeus Port Authority, while Lithuania withdrew in 2021 and Estonia and Latvia withdrew in 2022. The framework has become a key element of China's geostrategic approach to European countries and constitutes an arm of its Belt and Road Initiative (BRI) launched in 2013. Despite its framing as a multilateral approach, the 16+1 format has remained largely bilateral in practice according to the European Parliament Research Service (EPRS, 2018).

In November 2012, Xi Jinping became general-secretary of the Chinese Communist Party, as well as president of the PRC and chairman of the Central Military Commission. Chinese diplomacy has since undergone a fundamental shift as Xi pursues his vision of the "Chinese Dream" and the PRC's rise as a great power. He has abandoned the principle laid down by Deng Xiaoping that China should "hide its capabilities and bide its time" and has pursued what he calls "the great rejuvenation of the Chinese nation." A more confident China should not necessarily be incompatible with other countries, even those in the Western world. However, Beijing's tendency to trumpet China's special characteristics and development needs – sometimes under the cover of "Asian values" – as a justification for China's deviation from international norms or universal values does pose a challenge to the liberal international order. This is highlighted by China's increasingly confident participation in international affairs and its eagerness to act as a "rule-maker," not merely a "rule-taker" (Wang, 2017). The BRI and the Asian Infrastructure Investment Bank (AIIB) are illustrative examples of its ambitions.

Since its launch in 2013, 145 countries have signed up for the BRI. Its aim is to generate vast Chinese investment in infrastructure projects around the world. The objective is to give form to the Chinese Dream by creating a "Sino-centric network of economic, political, cultural and security relations" that can "re-constitute the regional order – and eventually global order" (Callahan, 2016, p. 226). Specifically, China offers loans to countries that participate in the BRI to build their infrastructure and generate economic growth. The BRI has been described as "China's Marshall Plan" for developing countries in the twenty-first century (Shen & Chan, 2018). However, the initiative has also led to warnings that some of the participants could be walking into a "debt trap" by signing up for excessive loans. Such debts could not only increase China's leverage over a given country, but also threaten its sovereignty if it is unable to repay the loan. One of the best-known cases was Sri Lanka's deal to lease Hambantota port to a Chinese company for 99 years after it failed to repay loans (Abi-Habib, 2018). It is also argued that China's BRI agreements can encourage corruption in borrower countries (Doig, 2019). Accordingly, many democracies have chosen to steer clear of the BRI despite the financing opportunities being offered. (Balding, 2018).

The BRI extends to Latin America and the Caribbean through its maritime arm, known officially as the 21st Century Maritime Silk Road. On February 15, 2022, the-then Argentine president Alberto Fernández met with Xi Jinping and agreed to join the initiative, making Argentina the 21st of 33 Latin American and Caribbean (LAC) countries to sign up. As of April 2023, the remaining 12 LAC countries that have not joined the BRI include Taiwan's seven diplomatic partners in the region and the three most populous countries: Brazil, Mexico and Colombia. Panama was the first country in the region to sign up in 2017, but the BRI's expansion has slowed since the outbreak of the COVID-19 pandemic in 2020. The US government took no effective measures to hinder the BRI's growth until August 2020, when the then-secretary of state, Mike Pompeo, launched the Clean Network, which aimed to purge Chinese tech companies from involvement in 5G networks. In September 2021, President Joe Biden and the G7 leaders launched the "Build Back Better World (B3W) Partnership," which plans to counter the BRI by addressing the multi-trillion-dollar shortfall in infrastructure investment in developing countries.

China moved to expand its sphere of influence in Oceania in 2000 when it set up the China–Pacific Island Forum Cooperation Fund and opened a Pacific Islands Forum trade office in Beijing. A significant landmark was reached in 2006 when the then-Chinese premier, Wen Jiabao, attended the first meeting of the China–Pacific Island Countries Economic Development and Cooperation Forum in Suva, Fiji. It was the first time such a senior Chinese leader had visited the region. Attended by eight Oceanian countries (Cook Islands, Federated States of Micronesia, Fiji, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu), the forum aimed to strengthen cooperation between the business communities of China and the island countries, and to increase Chinese aid. There is wide consensus in the field of Pacific studies that China has significantly increased its economic presence and aid engagement in the Pacific since the launch of this cooperation forum. The second forum was held in Guangdong in 2013, attended by the same partner countries. The goals became more vigorous: to support major infrastructure projects, increase exports to China and tap the Chinese tourism market. The third forum took place in Apia, Samoa, in 2019, with the Solomon Islands and Kiribati also attending after they both switched diplomatic recognition to Beijing a month before. China at this stage moved to incorporate Pacific Island states into the BRI and extend cooperation in multiple sectors.

The BRI aims to strengthen links from China to Europe via Central Asia through its terrestrial arm, officially known as the Silk Road Economic Belt. This ambitious Eurasia connectivity plan has aroused concern among EU countries, some of which are wary of what they see as China's "divide and rule" strategy. China's investment in key infrastructure projects and its acquisition of critical assets have heightened concerns surrounding the continent's economic security. With some hesitation, the EU responded to the BRI with its own connectivity strategy, unveiled in 2018 (European Commission, 2018). It was expanded and strengthened by the Global Gateway initiative announced by the president of the European Commission, Ursula von der Leyen, on December 1, 2021 (European Commission, 2021). The EU also adopted an investment screening regulation in 2019, mirroring the

Committee on Foreign Investment already established in the United States. With the outbreak of COVID-19, supply chain security, technological sovereignty and strategic autonomy had become major issues for the EU.

Since its accession to the World Trade Organization (WTO) in 2001, China has reaped substantial benefits from the world trading system. It has also actively sought free trade agreements and bilateral investment treaties wherever it can, ranging from Southeast Asia, Oceania and Latin America to Africa and Europe. In 2015, Australia became one of the first Western countries to conclude a free trade agreement with China, while the EU concluded a comprehensive agreement on investment with China in 2020. In addition to bilateral free trade agreements, China actively participates in mega-regional trade agreements, including the Regional Comprehensive Economic Partnership, which was concluded in 2020 and came into force on January 1, 2022. Over the past two decades, the volume of China's international trade has soared, and so, too, has its trade surplus with the rest of the world. This has resulted in uneven trade and occasional undue economic dependence on China, giving Beijing the scope to employ economic coercion, an approach that is sometimes linked to its increasingly strident diplomacy.

China's attempts at economic coercion are most frequently employed over Taiwan, visits by the Dalai Lama or criticism of China's human rights violations. The recent decision by Lithuania to allow the opening of a Taiwanese Representative Office in Vilnius, which led to strong protests and sanctions from Beijing, is a case in point. In response to China's actions, the European Parliament adopted its first-ever report on EU–Taiwan political relations. It expressed support for Vilnius's decision and encouraged closer EU–Taiwan political ties, including changing the name of its office in Taipei from the European Economic and Trade Office (EETO) in Taipei to the European Union Office in Taiwan to reflect the broad range of relations. The European Commission also moved to counter future threats to member states by proposing the establishment of a retaliatory mechanism, known as the Anti-Coercion Instrument.

The competition between Taipei and Beijing for diplomatic partners, coupled with Beijing's efforts to undermine Taiwan's diplomatic relations, should also be viewed against the background of Taiwan's internal politics. Both the succession of Xi Jinping in 2012 and the election of President Tsai Ing-wen in 2016 marked crucial junctures in the contest for diplomatic recognition. Under the previous Taiwanese administration of Ma Ying-jeou, which spanned from 2008 to 2016, political relations with Beijing were much better than under either its predecessor or successor. They were marked by the signing of the Cross-Strait Economic Cooperation Framework Agreement (ECFA) in 2010 and Ma's meeting with Xi in Singapore in 2016. The Ma administration's favorable approach to China led to a truce in the diplomatic competition. When the Gambia cut off diplomatic relations with Taiwan in 2013, China held off establishing ties with the African country until after the Tsai administration came into office in 2016.

With the signing of the ECFA, the Taiwanese and Chinese economies became increasingly integrated. However, the signing of a new agreement in June 2013, the Cross-Strait Services Trade Agreement, led to a backlash, with popular protests culminating in the Sunflower Movement in March 2014. The protesters feared that economic overdependence on China would eventually undermine Taiwanese sovereignty. The Sunflower Movement prepared the ground for the governing Kuomintang's defeat in the local elections at the end of 2014 and, finally, in the presidential election of 2016. China imposed economic sanctions after the Tsai administration took office, citing its refusal to recognize the "1992 consensus"[1] on cross-strait relations. The measures included restrictions on Chinese tourist visits and a ban on the import of Taiwanese fruit. China also persuaded several countries to switch diplomatic relations from Taipei to Beijing to signal its anger.

In response to China's diplomatic initiatives and economic retaliation, the Tsai administration unveiled its New Southbound Policy (NSP) in 2016, with the aim of improving cooperation and exchanges with 18 countries in South Asia, Southeast Asia and Australasia. The NSP was billed as "new" to distinguish it from its predecessor, the Southbound Policy, which was adopted in the 1990s. Both policies had the aim of reducing Taiwan's economic dependence on China by increasing economic, social and cultural exchanges with other Asian countries. The NSP, however, goes beyond its predecessor's focus on Taiwanese exports and emphasizes policy areas based on values, with initiatives described as "people-centered" and designed to enhance "bilateral reciprocity."

Because Taiwan's target countries overlap with the BRI, the NSP has been viewed as an attempt to counter the Chinese initiative. According to Yang (2018), the NSP also facilitates Taiwan's engagement with the world, a process that has been dubbed "international socialization." By helping to shape Taiwan's international identity and increase its visibility, the NSP also aids Taiwan in resisting China's attempts to marginalize it. Chen (2020) further argues that the NSP signals to the US that Taiwan is pursuing a moderate foreign policy that aligns with its "Free and Open Indo-Pacific Strategy" (FOIPS), a drive to strengthen Washington's economic and security relations with the region in response to the BRI (Tan, 2020). In other words, China's BRI has faced a response from both Taiwan and the US in East and Southeast Asian countries.

China's assertive diplomacy and its global ambitions have caused alarm in Washington and threaten to undermine US interests in Asia and beyond. Various policy initiatives have been attempted, including the US "pivot to Asia" under the Obama administration and the current Indo-Pacific Strategy. France, Germany and the EU as a whole have also drawn up their own Indo-Pacific strategies since 2018. Taiwan's security is now a key consideration for all players as tensions continue to rise in the region. Taiwan was high on the agenda at the G7 summit, the Quad leaders' summit and the US–Japan summit, and also in bilateral security consultations between Tokyo and Washington.

The competition between Taipei and Beijing for diplomatic partners should be viewed within the broader context of the contest between Washington and Beijing. The Taiwan Allies International Protection and Enhancement Initiative Act (TAIPEI Act), which was passed by the US Congress in 2019, illustrates Washington's growing acknowledgment of Taiwan's importance in the struggle. The Biden administration has shown increasing support for Taipei's presence in the UN system, although it has preserved the concept of "strategic ambiguity" regarding the extent of its willingness to defend the island in the event of an attack. On October 26, 2021, the US secretary of state, Antony Blinken, urged "all UN Member States to join in supporting Taiwan's robust, meaningful participation throughout the UN system and in the international community, consistent with its 'One China policy.'" (State Department, 2021)

With such geopolitical considerations in the background, this study aims to isolate the economic dimension of the diplomatic competition between China and Taiwan and assess the benefits and risks that third countries can expect from engaging with either. Specifically, we will assess whether China delivers on the often-lavish promises it makes when encouraging countries to break ties with Taiwan and investigate the economic and social impact on states that switch ties. This project is an attempt to vet and verify China's claim that significant economic benefits arise from switching diplomatic recognition to Beijing. By offering evidence in conjunction with empirical, quantitative and qualitative analyses, this study sheds light on the policymaking of third countries that are considering such a switch. Further, by exploring the social ramifications for countries that make the change, we help weigh any economic gains against the political and social costs. Moreover, as China relies heavily on economic coercion in its diplomacy, this study helps ascertain its effectiveness and explores possible policy responses.

We use statistical analysis to assess the impact of China's threats of economic coercion against countries that challenge it over Taiwan and other issues. We also investigate the social perils that can accompany close economic ties with China, such as restrictions on freedom of speech and the undermining of gender equality. We provide case studies from Latin America and the Caribbean, Oceania and Africa, where the competition between Taipei and Beijing has been intense. We also investigate three Central European countries – Poland, Hungary and the Czech Republic – as Poland and the Czech Republic are strengthening their relations with Taiwan, while Hungary is a firm supporter of China within the EU. Additional attention is accorded to Taiwan's high-tech sector, including electronics manufacturing services and semiconductor production, in light of the ongoing restructuring of global supply chains.

This edited volume begins by identifying China's use of economic coercion and evaluating its effectiveness. In Chapter 1, Chien-Huei Wu and Mao-Wei Lo assess the impact of the targeted sectors on the export volume to China, the export volume to the rest of the world, and the total trade volume of the targeted country with China. Finally, they analyze the responses of targeted countries and their policy options. The effectiveness of China's attempts at coercion is highly erratic, depending on a country's relative strength, its trade dependence and the vagaries of Chinese demand for the products or sectors being targeted. The capacity of countries to diversify their markets and the level of solidarity shown by other countries are also important factors. The authors argue that China's readiness to use economic coercion stems partly from the leverage it wields over countries that rely heavily on the Chinese market, and partly from the weakness of the WTO dispute settlement system. The WTO's inability to award compensation undermines deterrence. The problem can be addressed by collective action from countries that rally to support those caught in Beijing's sights.

In Chapter 2, Ding-Yi Lai, Wen-Cheng Lin and Wen-Chin Wu assess the perils associated with Chinese foreign aid, as aid is Beijing's key policy instrument for extending its influence in the developing world. Recent studies suggest that Chinese aid can generate short-term economic growth in recipient countries (Bluhm et al. 2020; Dreher et al. 2021), but its aid diplomacy is alleged to be inconsistent with international norms, such as those laid down by the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee. They map Chinese foreign aid to third countries and examine evidence through statistical analysis of its potential adverse effects. The findings show that Chinese aid tends to erode institutional quality in recipient countries, with a negative effect on democratic development, the rule of law, freedom of expression and gender equality in politics. This process fosters regime corruption. Such aid can also have negative social consequences, such as lower enrollment rates in primary schools and lower gender equality in employment. The findings are robust to alternative statistical models that address the issue of cause and effect. One key implication of this chapter is that China's foreign aid may continue to be detrimental unless Beijing adopts the international norms and standards that are associated with official development assistance from OECD countries.

Chapter 3 is a quantitative chapter where Jinji Chen and Ling-Yu Chen use the econometric method to trace changes in economic growth when a country switches diplomatic recognition from Taipei to Beijing, and vice versa. They also track the impact on the growth of other Chinese initiatives. These include the first FOCAC summit held in 2006, the establishment of the China–Pacific Islands Economic Cooperation Forum in 2006, the launch of the 16+1 format in Central and Eastern Europe in 2012, and the introduction of BRI to Latin America and the Caribbean in 2013. They examine whether these landmarks had a significant impact on growth, and whether the effect was positive or negative. The results of this chapter lay the foundation for further analysis in subsequent chapters. The methodology we use is the difference-in-differences (DID) formula to assess whether a policy change has made any difference in growth. The volume editor urges the reader not to be intimidated by the formulas, graphs and charts. To allude to the famous poem by Robert Frost, "The Road Not Taken," where Frost ends with the phrase "And that has made all the difference," the basic idea of the DID methodology is to assess whether a policy change has resulted in positive or negative differences, if any.

The remaining chapters use the DID methodology, supplemented by qualitative analysis that employs methods from the social sciences and anthropology, to assess the broader impact on economies and society. Diplomatic competition between Beijing and Taipei has been particularly fierce in Latin America and the Caribbean, Oceania and Africa. In Central and Eastern Europe, although there have been no switches in diplomatic recognition, there has nonetheless been a significant change in atmosphere. Poland, the Czech Republic, Slovakia and, most recently, Lithuania have all made sympathetic overtures toward Taiwan and have backed closer cooperation, while continuing to adhere to the EU's One China policy.

In Chapter 4, Yen-Pin Su turns to Latin America and the Caribbean, where the diplomatic competition between Taipei and Beijing remains intense. He supplements a study of the numbers with an analysis based on interviews and secondary literature. The quantitative analysis reveals that the switching of diplomatic relations from Taipei to Beijing does not necessarily lead to stronger economic performance. In the case of Costa Rica, the economy did grow steadily after switching ties from Taipei to Beijing in 2007, but growth was slower than, for example, neighboring Panama, which remained with Taiwan until 2017. In addition, after building formal ties with China, a trend of trade imbalances became increasingly clear. By 2016, China had become Costa Rica's largest trading partner, but, at the same time, the country with which Costa Rica maintained its largest trade deficit. However, the prospect of faster growth is not the only factor at play. Some small countries opt to reject Beijing for the higher relational status they obtain from Taiwan, or the "feeling of being accepted and respected." This, however, should not be overstated, and economic incentives are often decisive. Thus, he argues that the Taiwanese government must work harder to contribute to the economies of its diplomatic partners.

Chapter 5 investigates Africa, once the scene of intense competition between Taiwan and China, but where Eswatini is now the only country to still recognize Taiwan. Derek Sheridan finds that the economic impact of ties with Beijing is complex, and China is often far from the decisive factor affecting economic performance. Malawi switched ties to Beijing in 2008, and its exports to China increased, but so did its trade deficit (to over US$100 million in 2009, peaking at $500 million in 2019). The change has had only a limited impact on Malawi's economic performance. Switching relations to Beijing often creates expectations of an economic boost that Chinese and African leaders are unable to deliver. Chinese diplomats, African leaders and journalists frequently talk up investment pledges and project proposals that never materialize. While China has chalked up a diplomatic victory on the African continent, Taiwan has come to increasingly depend on people-to-people relations, an area that has not received serious study. Taiwan, however, has also tended to apply the principle of reciprocity to countries that break diplomatic relations or challenge its interests, a response that is often counterproductive. Taiwanese private actors have occasionally stepped in to preserve contacts after diplomatic breaks. On occasion, African students in Taiwan, cut off from Taiwanese government support, have been offered help with tuition and living costs. In another example, the Pingtung Christian Hospital in Taiwan stepped in to fund and operate the Taiwanese-built Rainbow AIDS clinic in Malawi after Taipei cut support. Such steps are unlikely to generate a lobby for the reestablishment of formal relations, but they can create a constituency of people favorably disposed to Taiwan who can help in other ways.

Chapter 6 addresses the diplomatic competition in Oceania against the backdrop of a dynamic geopolitical picture. Pei-yi Guo, Cheng-Cheng Li and Sra Manpo Ciwidian first consider the divergent regional perspectives under such headings as "China as an alternative" or "China as a partner" as opposed to "China as a threat." They find that arguments advocating for China as an alternative to the traditional regional powers, or as a partner, tend to forgo scrutiny of the reality behind China's rhetoric and its repetition of such concepts as "non-interference" and "South–South" engagement. As the world's second-largest economy and a growing military influence in the region, China cannot be considered a developing country in the same category as the Pacific Island states. China's claims of non-interference in the region also call for careful examination. They then analyze the economic performance of selected countries using results from the DID method and dig deeper into key economic sectors. It often makes economic sense for small island economies to side with Taiwan. This can present them with economic opportunities and does not place them at a disadvantage compared to neighbors that align themselves with China. On the other hand, Chinese aid and loans often boost economic performance for a period, but the gains can be short-lived, as experienced by Samoa. Both Samoa and Tonga are now heavily in debt to China, while Taiwan's remaining partners suffer no such burden. Larger countries whose revenue depends on resource extraction tend to rely heavily on China as an export destination, which makes them vulnerable to political pressure from Beijing. Diversification of import and export markets is identified as an important step in increasing resilience against potential Chinese pressure and maintaining sovereign control over foreign policy.

Chapters 7 and 8 are not directly related to the switch in diplomatic relations between Taipei and Beijing per se, but instead reflect the dynamics of international politics on the ground. Central and Eastern Europe, and in particular the Czech Republic, have forged closer relations with Taipei in the past few years, even though formal diplomatic relations remain unlikely. Taiwan's high-tech industries, especially the semiconductor industry, have been under the spotlight in the wake of global supply chain disruption arising from the COVID-19 pandemic and may potentially constitute an asset to Taiwan's diplomacy.

In view of these considerations, in Chapter 7, Ágnes Szunomar addresses Central and Eastern Europe, where Taiwan and China compete for influence, even in the absence of any switches in formal ties. She focuses on Poland, the Czech Republic and Hungary (the CEE3) and examines the trade and investment activities of Taiwanese and Chinese enterprises. She finds that accession to the EU in 2004 and the launch of the 16+1 initiative in 2012 gave new impetus to CEE3 relations with China. However, trade has remained unbalanced. Whereas Chinese exports to the CEE3 have increased substantially, growth of the CEE3's exports to China remained modest after 2012, and even decreased slightly for a few years after 2014, leading to wider trade deficits. Trade relations between Taiwan and the CEE3 are more balanced. Between 2002 and 2020, imports from Taiwan nearly doubled, while exports to Taiwan tripled. Meanwhile, Chinese investments are still dwarfed for example, by German multinational enterprises' investments in these countries, with Chinese foreign direct investment (FDI) stock barely accounting for 1% of total inward FDI stock. Taiwanese investment in the CEE3 is even less significant in percentage terms. One less expected discovery was that most Taiwanese multinational companies with a presence in the CEE3 also have a connection with China, through either a subsidiary from mainland China or cooperation at the global level.

She also finds that among Chinese enterprises, political relations between the home country and the host country are of critical importance. Taiwanese enterprises are less concerned about the level of diplomatic cooperation, although political relations do count to some degree. If Taiwan wishes to translate its economic links with the CEE3 countries into diplomatic gains, then investments in more advanced sectors and technologies appear to be the key rather than restricting its investments to electronics manufacturing.

Chapter 8 stands alone in this study, as it does not focus on state activities. Instead, this chapter investigates the behavior and strategies of Taiwanese technology enterprises and examines the possible spillover effects they may have on the political domain. To this end, Kuancheng Huang and Shih-Ping Huang choose two industries in which Taiwan holds a strong position: electronics manufacturing services (EMS) and semiconductor foundry services. They focus on two regions and one country – Southeast Asia, Central Europe and India – where Taiwanese enterprises are in the process of relocation, diversification and investment, and where Taiwan appears to be making incremental diplomatic gains. Recently, investments by Taiwanese EMS companies in South and Southeast Asia have been surging. These investments have been fueled by the trade and technology contest between the US and China and the launch of Taiwan's NSP, although China's entrenched role as the "world's factory" appears unlikely to be challenged in the near term. In addition, the strategic importance of Taiwan's semiconductor industry has been further affirmed by the current chip shortage crisis and disruptions to supply chains. We argue that the Taiwanese government should align its strategies and policies with the private sector to support the global expansion of Taiwanese high-tech enterprises. This would yield added diplomatic benefits at a time of rising economic nationalism in a way that is distinct from China's system of state capitalism. They further propose the joint development of science-based industry parks, the promotion of digital infrastructure projects through foreign aid, and the establishment of a global semiconductor alliance as practical steps for Taiwan to raise its profile. Such opportunities are on the rise given the growing trade and tech rivalry between the US and China. Any partnership and synergy between the Taiwanese government and Taiwan's high-tech enterprises can only be mutually beneficial.

In a nutshell, this edited volume provides a comprehensive analysis of China's use of economic power to isolate Taiwan in the international community, and the political and economic consequences for those countries that cut off diplomatic ties with Taiwan. The volume offers valuable empirical evidence for the competition of China and Taiwan for diplomatic recognition in third countries, notably, Latin America and the Caribbean, and the Oceanic countries. It also looks into areas that Taiwan may not be able to establish diplomatic relations but investigates how unofficial relations can be strengthened. The improvement in political and economic relations between Taiwan and Central European countries, notably, Poland and the Czech Republic, offers a lot to explore. It further adds a valuable perspective on how Taiwan may leverage its advantage in high-tech sectors to its diplomatic gain. This edited volume thus lays out groundbreaking work for understanding the diplomatic competition between Taiwan and China.

In addition to its contributions to studies on Cross-Taiwan-Strait relations, this book offers valuable insights into China's rise, international political economy and international relations. One of the book's main contributions is shedding light on China's use of economic power to achieve its political goals. Many studies have pointed out that China has utilized its economic power to gain political influence in developing countries. This book goes beyond this observation to provide substantive evidence that China offers economic incentives for foreign countries to isolate Taiwan diplomatically. The book also shows that China can successfully use economic incentives to induce the cooperation and compliance of other countries and demonstrates that China's rise can reshape the world order. The findings of this book remind the international community of the need to pay attention to China's economic statecraft, particularly its use of economic incentives to gain political influence, and the potential consequences of those incentives for other countries.

Second, this book makes an important contribution to the literature on international political economy. It demonstrates how China exercises economic statecraft to achieve its political goals. As many countries have established economic ties with China, the book suggests that China may take advantage of other countries' economic dependence on it for political gains, such as isolating Taiwan. This finding raises concerns about the role of economic interdependence on China in international relations and highlights the need for countries to be aware of the potential risks associated with their economic ties with China. The book also identifies some perils of Chinese foreign aid. Scholars and policy experts have warned that China, as an emerging international donor, has intended to use its foreign aid to gain support from developing countries. This book further suggests that politicians in developing counties would have a strong incentive to receive Chinese foreign aid and engage in more corruption. As a result, the findings of this book highlight the importance of tracking and regulating China's foreign aid, such as increasing transparency and imposing conditionality.

Thirdly, the book contributes to studies in international relations, particularly alliance politics. In the past decade, China has extended its economic statecraft to the international community, such as through the establishment of the AIIB and the BRI. By deepening economic relations with other countries through these arrangements, China offers an alternative to the liberal international order established by the United States in the 1940s. This finding raises important questions about the future of the international system and the role of China as a rising power in shaping it.

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Note

1 "1992 consensus" is a vague, ambiguous and controversial concept that may further evolve over time. It refers to the idea that both Taiwan and mainland China agree that there is only one China but both sides can have different interpretations, be it the Republic of China or the People's Republic of China. Whether each side is entitled to decide which China the formula refers to is subject to dispute, as is the question of how China should be represented diplomatically.

1 The threat of China's economic coercion

Chien-Huei Wu and Mao-Wei Lo

Introduction

Over the past few decades, the People's Republic of China (PRC) has maximized its efforts to isolate Taiwan from international relations. One of its policy instruments is the use of economic statecraft, which aims to lure Taiwan's diplomatic partners with economic benefits or coerce them to behave in a certain manner for diplomatic and strategic purposes. On the one hand, China may offer economic benefits, such as foreign aid and trade preferences, with a view to persuading states that recognize Taiwan's statehood to switch diplomatic relations. On the other hand, it may resort to economic coercion in order to change states' behavior and shape the direction of policymaking. Whether the promise of economic benefits materializes, or whether coercion is effective, demands careful analysis.

This chapter complements subsequent chapters that examine in greater depth the economic impact on countries that switch diplomatic relations or establish representative offices in Taipei. It aims to illustrate how China uses its economic power to pursue strategic and diplomatic objectives by shaping the behavior of third countries, and in some cases competing with Taiwan for diplomatic partners. The chapter first examines the policy instruments available for China's economic statecraft in general and then assesses its use of economic coercion in particular by highlighting the characteristics of these instruments. The chapter then considers the effectiveness of China's use of economic coercion based on four indicators: the trade volume of the targeted sector in the Chinese market; the total trade volume of the targeted country with China; the trade volume of the targeted sector between the targeted country with the rest of the world; and the responses of countries that have been targeted in terms of changed behavior. After assessing the effectiveness of China's use of economic coercion and examining the responses of the targeted sectors and countries, this chapter offers suggestions regarding how to ameliorate the impact of Chinese coercion and preserve policy autonomy.

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Policy instruments for China’s economic statecraft and their characteristics

China’s evolving attitude toward economic statecraft

Economic statecraft is understood as the use of economic tools or measures by countries to advance their national and strategic interests (Baldwin, 2020). Scholars have illustrated how the expansion of a country’s economic and diplomatic power can lead to much more vigorous use of such methods (Norris, 2016; Macikenaite, 2020, pp. 108–109). Economic statecraft can be exercised either to entice targeted countries with incentives or to employ economic coercion to compel a given response (Blanchard & Ripsman, 2013). Available policy tools, national objectives, and the effectiveness of economic coercion or inducements directed at targeted countries are all observed indicators and constitute the primary focus of our examination of China’s economic statecraft.

Although China’s exercise of economic statecraft has attracted a lot of attention in scholarly works and the policy community, its use of such foreign policy tools began relatively recently (Suettinger, 2000, p. 15). For decades after the PRC was established in 1949, the Chinese government continuously stressed its commitment to “Five Principles of Peaceful Coexistence,” which highlighted anti-hegemony as a fundamental foreign policy goal (Ministry of Foreign Affairs, 2021).[1]

During the Cold War, China repeatedly criticized the US and the Soviet Union for using their economic and military power to bully the developing world (Li, 2017; Levine, 1975; Van Ness, 1993). However, since 1980, consistent with its growing economic, military and political power, China has increasingly resorted to economic coercion to pursue its national interests (Nephew, 2019). Illustrative examples include an attempt to internationalize its “One China Principle,” which requires recognition of Taiwan as an inalienable part of Chinese territory, and to insist on the principle of noninterference regarding Beijing’s control over Hong Kong, Tibet and Xinjiang (Macikenaite, 2020, p. 118).

Economic statecraft with Chinese characteristics

China has employed ever more diverse economic tools to further its interests as its economic and diplomatic powers increase. Positive economic instruments were once favored, including the allocation of foreign aid, investment by state-owned enterprises, and foreign development assistance programs for the least developed countries (Li, 2017). In 2018, with a view to coordinating its once fragmented foreign aid administration, the International Development Cooperation Agency was established, representing the first structural change in China’s institutional evolution of foreign aid allocation (Rudyak, 2019). This, combined with the Belt and Road Initiative (BRI),[2] has led to a more systematic use of positive economic statecraft.

Turning to negative economic statecraft, studies find that China is increasingly resorting to coercive measures in its foreign policy toolbox. These are used to retaliate against countries that challenge China's sovereignty, that pose a threat to its national security, or that stand against its foreign policy objectives (Li, 2017, p. 18). While such measures are being employed more frequently, commentators note that China's use of coercion is usually not long-lasting, and it is not aimed at crippling targeted countries' economies. Rather, coercion is employed to express China's anger and to encourage changes in policy (Macikenaite, 2020, p. 119). China's ambitious agenda now includes attempts to shape the international system through economic coercion (Economy, 2018, p. 186).[3] Its expanding use of such measures can also be understood as a component of a more aggressive foreign policy. China has expanded its self-defined "core interests" and insists on its own interpretation of international law and understanding of international relations.

Beijing's exercise of statecraft has a number of distinctive features. Much of the economic pressure is not explicitly launched by the Chinese government. Rather, China may rely on its consumer market, one of the largest in the world, as the source of coercive leverage. Specifically, China can manipulate several tools, such as restrictions on tourism, popular boycotts, protests and even riots by Chinese civilians, to increase pressure on the targeted country (Reilly, 2012, p. 124). Even when economic coercion is directly employed by the government, China rarely acknowledges that the punitive measures are a response to infringements upon its national interests. Instead, informal or extralegal measures are used, enabling China to label its actions legitimate regulatory measures and retain the flexibility to escalate or de-escalate the level of retaliation. For instance, China can selectively apply food safety regulations to products imported from targeted countries. The Chinese government can also suspend targeted companies' operations on the grounds of public safety concerns (Harrell et al., 2020, p. 23). Most of the countries targeted in this way are democratic states. China has tended to rely on economic inducements to consolidate ties with its authoritarian partners, but such an approach is considered less likely to succeed with democracies. Consequently, China uses measures to target critical products or key enterprises in the hope that the economic damage will sway democratically elected leaders who feel responsible for the welfare of their citizens (Harrell et al., 2020, p. 23).

A review of China's use of economic coercion in recent decades

This section uses descriptive statistics to quantitatively demonstrate the effects of economic coercion against other countries. We assess the impact on the following countries, which have been targeted in various ways: Norway, Japan, the Philippines, Mongolia, Canada, Palau, Australia and Lithuania. We measure the effectiveness of China's use of economic coercion through four indicators: (1) the value of the targeted product(s) exported to China; (2) the value of the country's total exports to China; (3) the value of the targeted product(s) exported to other countries; and (4) any policy changes undertaken by the targeted country. We strive to offer empirical inputs by displaying the trade effects or policy changes caused by the coercive trade measures.[4]

Economic coercion against Norway (2010–2016)

China is Norway's largest trading partner in East Asia and one of the most important markets for Norwegian salmon (Chen & Garcia, 2016, p. 31). However, in 2010, China–Norway relations suffered a severe setback when the Norwegian parliament-appointed Nobel Committee awarded the Nobel Peace Prize to Liu Xiaobo, a human rights activist detained by China on charges of endangering national security (Nobel Prize, 2010). Following the announcement, the Chinese government condemned Norway for disrespecting its judicial sovereignty and accused Norway of damaging relations (BBC, 2010). China further declared that stricter inspections would be carried out on Norwegian salmon due to food safety concerns.[5] Lengthy and complicated border inspections resulted in long delays, which were devastating for a fresh product such as salmon. Moreover, in 2015, China announced a full import ban on Norwegian salmon after allegedly detecting infectious salmon anemia, a viral disease (Xinhua, 2015). Relations finally improved in 2016 after China received a formal apology from Norway and the two countries signed a joint communiqué to normalize their relations.[6] The salmon trade resumed soon afterward.

In this case, China's coercive measures had a significant impact on Norwegian salmon exports (Chen & Garcia, 2016). The import values of Norwegian salmon to China rose and fell according to the scale of the confrontation (Figure 1.1). After the Nobel Peace Prize was awarded to Liu, the export value of salmon to China fell sharply from $145 million to $84 million in the next quarter. A sharper decrease followed in 2015 Q1 to Q3, while the import ban was in place. While seriously influenced by Chinese economic measures, Norway successfully increased salmon exports to other markets. The huge surge in the export value of Norwegian salmon in 2013, in the midst of the dispute, supports such an observation. Additionally, notwithstanding the tension between the two countries, China did not cut off all trade relations with Norway. Figure 1.2 also shows that the overall value of Norway's exports to China increased from 2013 Q1 to 2014 Q4, while the salmon restrictions were in place. In summary, even though China expressed its dissatisfaction with Norway through punitive measures against one of its vital exports, the Chinese government did not completely suspend bilateral interaction. However, Beijing's actions were successful since Norway yielded to its demand for an apology, and relations were normalized through the issuance of a joint communiqué in 2016.

Economic coercion against Japan (2010–2015)

Japan and China have a close but complicated relationship due to geographical, economic, historical and cultural factors. The territorial and maritime disputes arising from their competing sovereignty claims over the Senkaku/Diaoyu Islands is a fundamental source of tension (Fravel, 2010, p. 144). In 2010, a Chinese fishing vessel collided with a Japanese coast guard patrol boat in the disputed sea area of the uninhabited islands. The Chinese trawler was seized by Japan for illegally entering Japanese-controlled waters and unduly interfering with

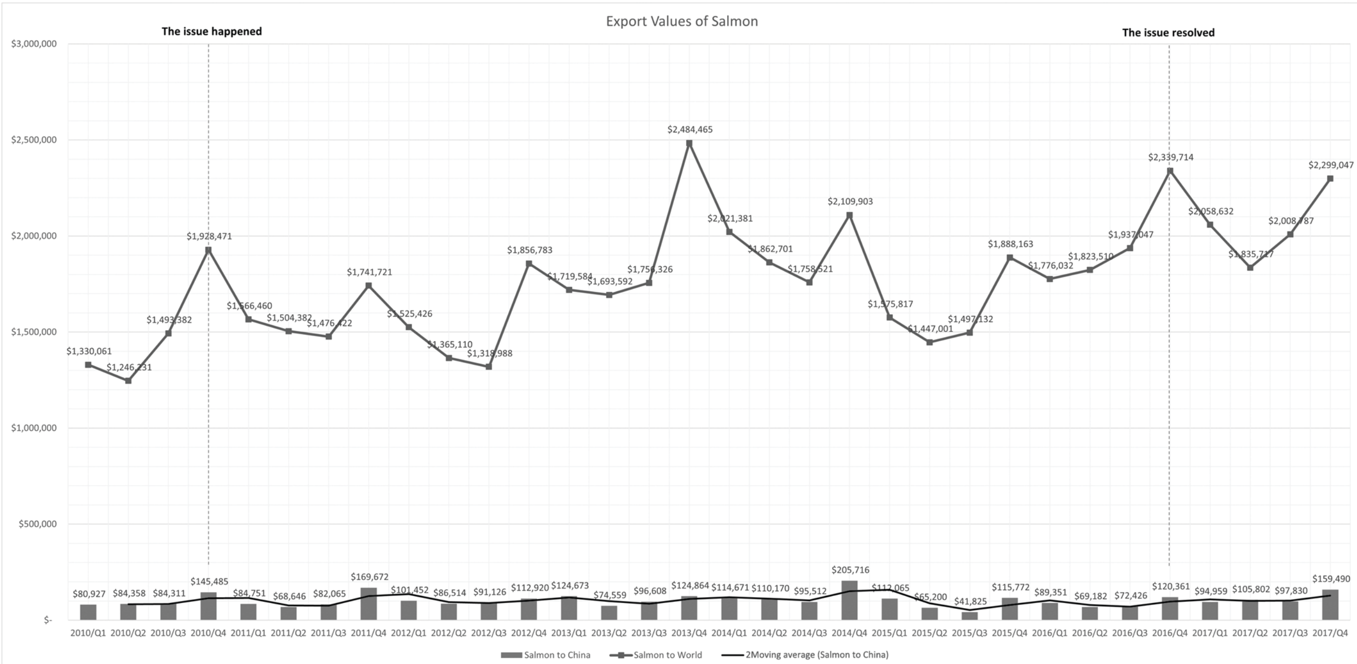

Figure 1.1 The export value of Norwegian salmon to China.

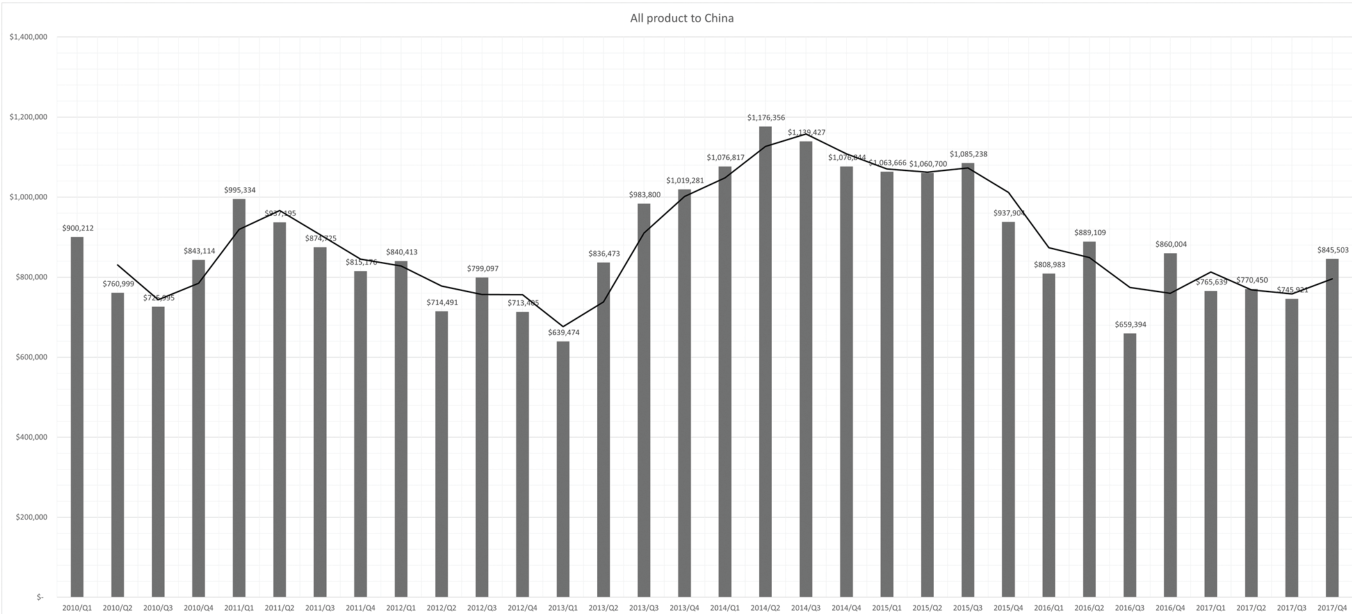

Figure 1.2 Total export values from Norway to China.

the Japanese coast guard (McCurry, 2010). The Chinese government strongly protested and took steps to halt the export of rare earths globally. While the export ban did not explicitly mention Japan, Tokyo was widely seen as the intended target, and Japanese manufacturing industry suffered severe repercussions given China's control of 97% of global rare earths production (*Japan Times*, 2010; Jha, 2010). Japan responded by uniting with some of its trade partners to challenge the legitimacy of the Chinese export ban through the World Trade Organization (WTO). The claimants won the case in 2014. The Dispute Settlement Body (DSB) required China to lift the export ban and export quotas, which were hampering the export of rare earths.[7]

Figure 1.3 shows the import values of rare earths from China and other countries to Japan. While China had begun to cut overall export quotas of rare earths in 2006 because of its own national industrial policy (Morrison & Tang, 2012, p. 12), it further restricted the volume of rare earths exports to Japan to retaliate in response to the territorial dispute. The export restrictions caused the value of rare earths to jump to a historic high in 2011. This phenomenon can be explained by shortages in supply chains, which resulted in rocketing prices. However, Japanese industries managed to reduce their demand for rare earths and cut imports in response. Furthermore, after the WTO ruled that China's export ban was not in line with WTO rules, the import value of Chinese rare earths to Japan stabilized. Thus, Japan did not yield to China's demands, perhaps due to the highly sensitive nature of the territorial dispute. It had successfully collaborated with the US and other countries to challenge the legality of export bans and quotas.

Economic coercion against the Philippines (2012–2016)

The Philippines and China have long clashed over their overlapping territorial and maritime claims in the South China Sea (Storey, 1999). After 2012, tension escalated when both sides dispatched coast guard vessels to the waters surrounding the Scarborough Shoal, a chain of reefs off the West coast of the main Philippine island of Luzon, resulting in a prolonged standoff. The tension intensified when the Philippines initiated international arbitration against China's territorial claims under Annex VII to the United Nations Convention on the Law of the Sea and challenged China over the historical rights it claimed in the area (Reed & Wong, 2017).[8] In 2016, the tribunal rendered an award in favor of the Philippines that denied China's historical rights and the source of maritime entitlements in the South China Sea. During this period, China imposed strict phytosanitary controls on bananas imported from the Philippines. While neither the Chinese nor the Philippine government overtly connected the trade restrictions to the South China Sea dispute, the restrictions were imposed at about the same time as the territorial confrontation (Higgins, 2012). Bilateral relations improved in the end of 2016 after the newly elected president of the Philippines, Rodrigo Duterte, sought to restore friendly relations. He agreed to set aside the 2016 arbitral award that had favored the Philippine position (Kreuzer, 2018, pp. 16–23).

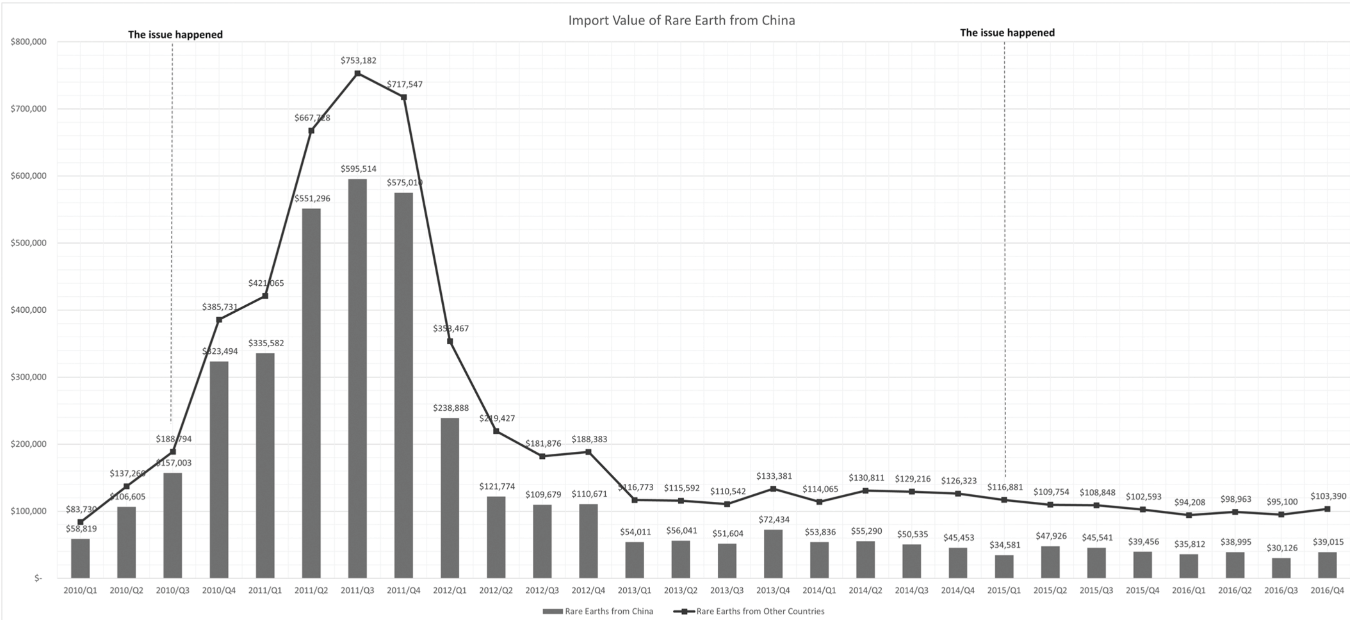

Figure 1.3 The import values of rare earths from China and other countries to Japan.

The effect of the phytosanitary measures on Philippine bananas is delineated in Figure 1.4, which shows that the export value of bananas from the Philippines to China decreased and remained low after 2012 Q1. Nevertheless, exports bounced back in 2014. While the value dropped again in 2015, this was attributed to a drought that significantly reduced the quality and volume of banana production (FAO, 2015–16). Interestingly, the export value of bananas to other countries increased significantly during the period of China's import restrictions (from 2012 Q1 to 2014 Q2), which indicates that the Philippines successfully diverted its banana exports to other markets. Moreover, after President Duterte was elected and decided to mitigate the tension between the Philippines and China, total export values to China significantly increased (Figure 1.5, 2016 Q2–Q4). Political considerations clearly played a critical role in bilateral trade relations. In view of Duterte's decision to set aside the South China Sea arbitration, China was successful in changing the targeted country's behavior.

Economic coercion against Mongolia (2016)

China is Mongolia's largest trading partner. Some 89% of Mongolian exports of goods are destined for China.[9] Overall, the relationship between Mongolia and China is smooth and close. Nevertheless, when the Dalai Lama, whom China regards as a dangerous separatist, visited Mongolia in 2016, China asserted that hosting or meeting with the Dalai Lama was a major offense against China's sovereignty and the sentiment of the Chinese people. A week after the Dalai Lama's visit, China raised fees on mining product imports (mainly copper ore) from Mongolia and created delays at various border crossings (AL JAZEERA, 2016). China also announced it would call off ongoing financial assistance negotiations with Mongolia (Aldrich, 2016). While China did not explicitly connect these measures with the visit by the Tibetan spiritual leader, it stated that the "Dalai Lama's furtive visit to Mongolia brought a negative impact to China–Mongolia relations" (Reuters Staff, 2017).

The effect of China's trade disruptive measures is identified in Figure 1.6, which displays the export value of copper ore from Mongolia to China. The data show that it declined in December 2016 compared to October and November of that same year. Shortly afterward, the Mongolian government expressed regret at the negative impact caused by its reception of the Dalai Lama and reassured China that it would not invite him back in the future (Caiyu & Tao, 2016). All of the indicators in Figure 1.7 have bounced back since 2017. China's use of economic coercion against Mongolia was successful, both in terms of curbing the country's exports to China and compelling Mongolia's subsequent change in policy.

Economic coercion against Canada (2018–)

In late 2015, when Justin Trudeau was elected Canada's prime minister, the China–Canada relationship became more cooperative, and trade and investment grew (Blanchfield, 2015). However, Ottawa's relations with Beijing deteriorated shortly

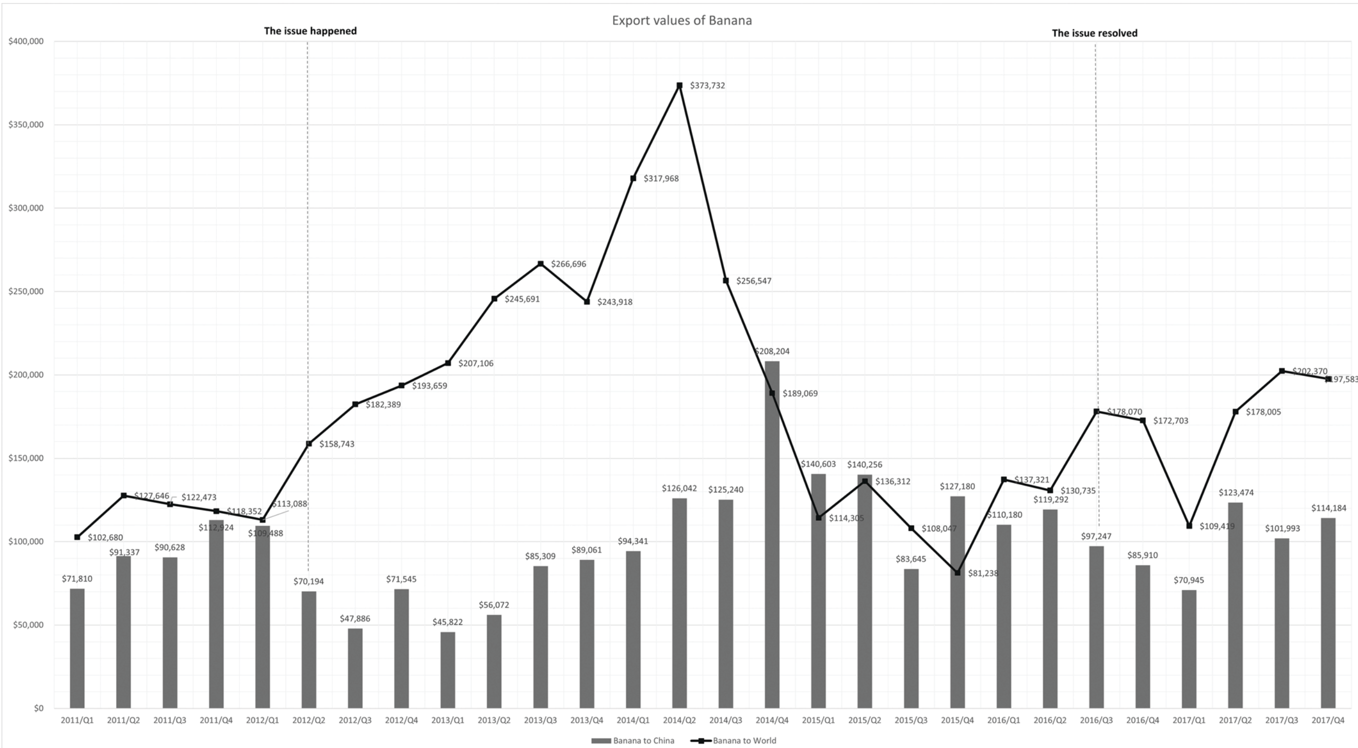

Figure 1.4 The export value of Philippine bananas to China.

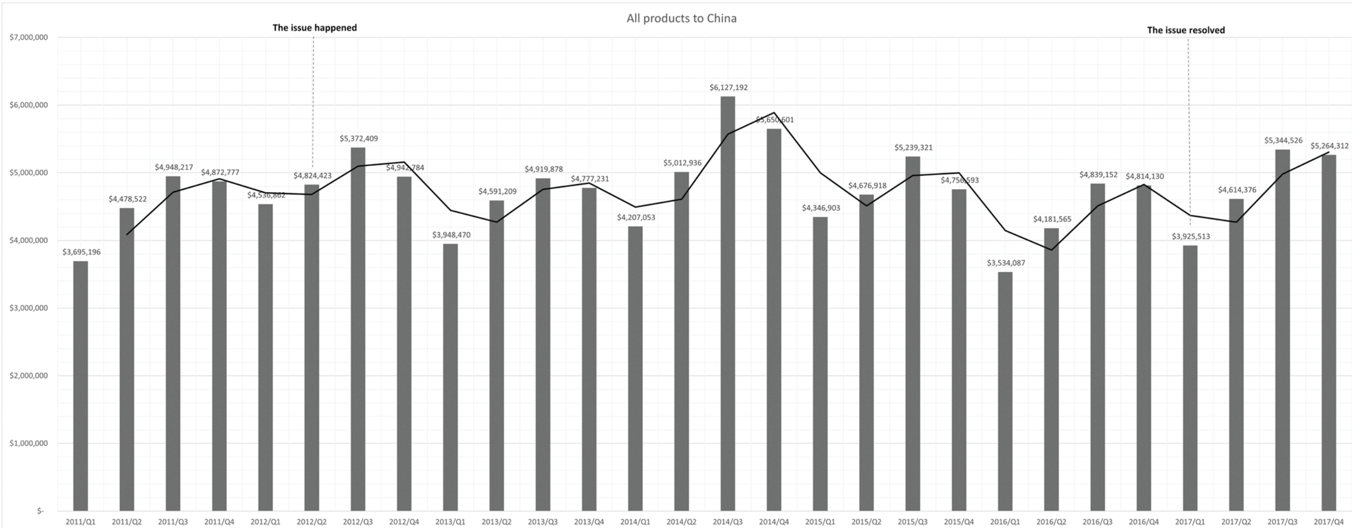

Figure 1.5 Total export values from the Philippines to China.

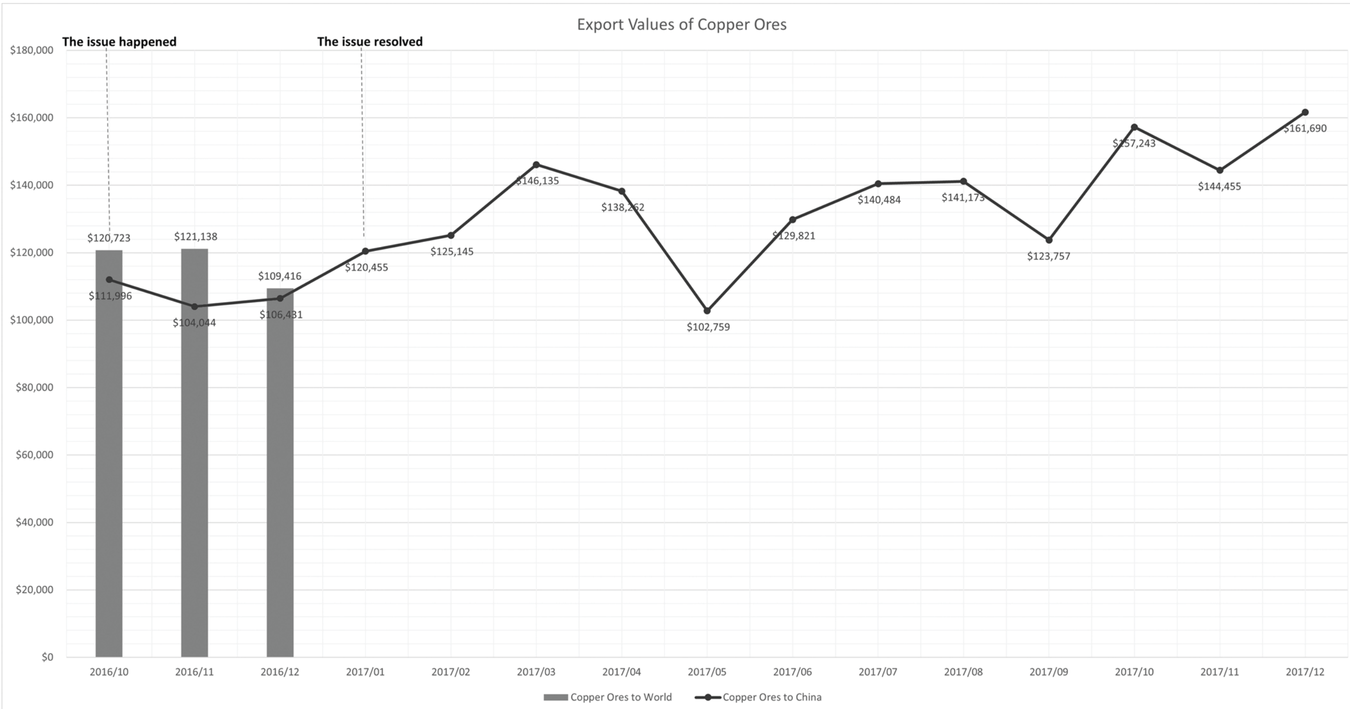

Figure 1.6 The export value of Mongolian copper to China and other countries.

Note: The export values of Mongolian Copper Ores to other countries are missing from the database.

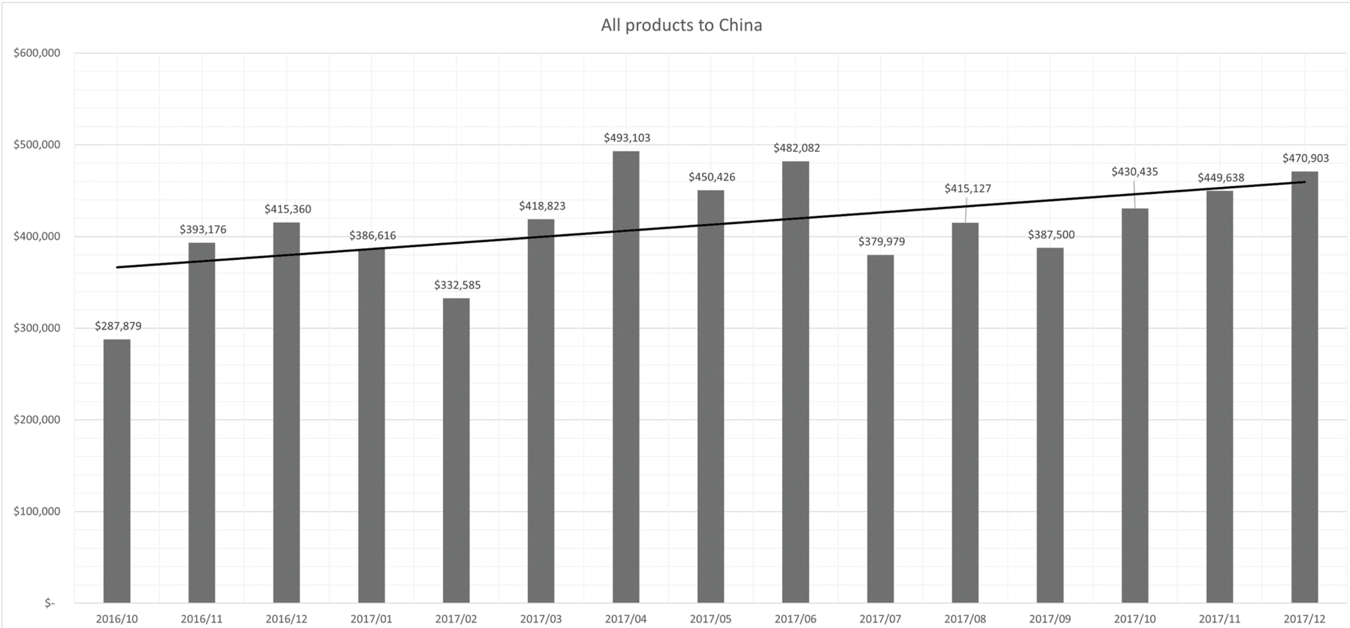

Figure 1.7 Total export values from Mongolia to China.

after 2018. The turning point was the arrest of Meng Wanzhou, the chief financial officer and deputy chair of Huawei (Wakabayashi & Rappeport, 2018). A few days after her arrest, unilateral economic measures were adopted by the Chinese government to increase pressure on the Canadian government. The targeted product in this case was canola seeds. China accounted for 40% of Canada's exports of the product (Johnson, 2019). It imposed trade restrictions alleging that the seeds carried diseases and were contaminated with insects and weeds that threatened human, animal and plant health.[10] In response, Canada took its case against China to the WTO and initiated a consultation procedure.

The value of canola exports from Canada to China steadily decreased after January 2019 (Figure 1.8). According to the Canola Council of Canada, canola seed exports to China "were down approximately 70% in 2019 due to trade disruptions, resulting in an estimated $1 billion in lost revenue from canola" (Lester, 2021). However, the value of canola exports to other countries increased after the import ban, thanks to Ottawa's drive for new markets to mitigate the impact (Patey, 2021). Nevertheless, as the Meng case dragged on, Canada's canola exports to China steadily rebounded, and in June 2021 they reached $220,637,000, 95.6% of the level before Meng was arrested. Additionally, whereas it is undeniable that overall diplomatic relations between Canada and China have been undermined, Canada's total exports to China initially decreased but began to grow again in February 2020, reaching the same level before the dispute by July 2021 (Figure 1.9). The Meng dispute finally came to an end on September 24, 2021, when Meng and the US Department of Justice reached a settlement and the Canadian court concluded that there was no need for an extradition ruling. The visible jump in the export value of canola seeds happened right after the two sides settled the dispute at the end of 2021.

The effectiveness of China's attempt at economic coercion against Canada cut both ways because of the complexity of the case. Meng was arrested due to an extradition request by the US. The move was seen by China as part of Washington's attempt to constrain Huawei's expansion into global 5G networks, a key element in the US–China trade war and technological competition. On the face of it, China succeeded in its aim to compel Canada to release Meng. However, her release was, in effect, the result of a settlement between Meng and the US Department of Justice. Canada's actions were undertaken against the backdrop of China's resort to hostage diplomacy. Two Canadian citizens were detained in China on national security charges (BBC, 2019a), and two were executed after being convicted on criminal charges (BBC, 2019b). Therefore, the effectiveness of China's economic sanctions must be seen in the light of the broader diplomatic context. Canada's exports of canola continued to increase despite the measures, while China was forced to import canola oil from third countries because of its huge demand for the product, much of which was extracted from Canadian canola seeds. China's goal of damaging Canadian exporters had backfired, and Chinese consumers paid the price. Meanwhile, total exports from Canada to China continued to increase regardless of the dispute. The case provided further evidence that China's high demand for raw materials can stymie its attempts at economic coercion.

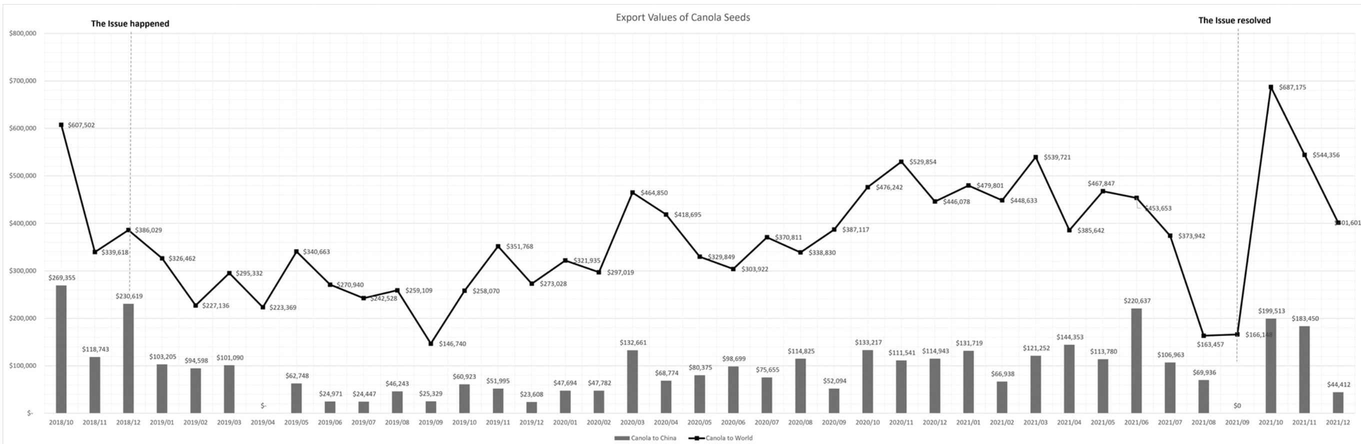

Figure 1.8 The export value of Canadian products targeted by China.

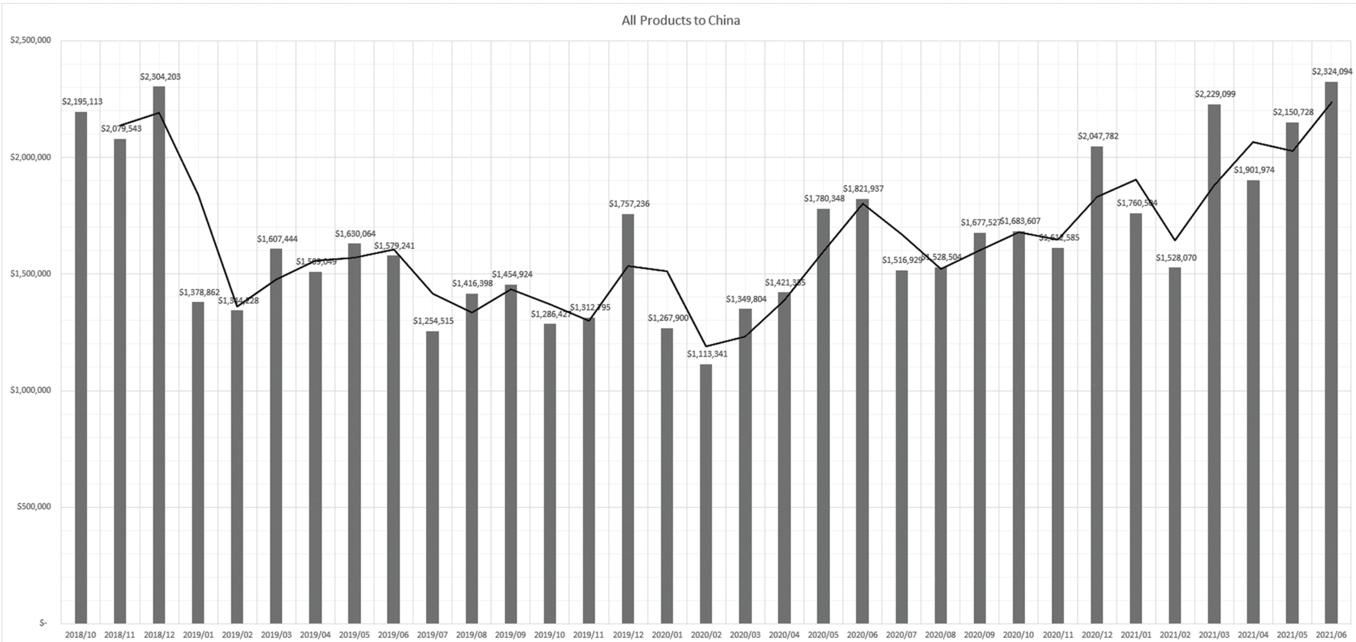

Figure 1.9 Total export values from Canada to China.

Economic coercion against Palau (2017–)

Palau is a Pacific nation and one of Taiwan's 12 remaining diplomatic partners. The two countries established diplomatic relations after Palau achieved independence in 1994. Tourism is Palau's main industry, accounting for over 50% of its GDP before the pandemic. Some 50% of the tourists come from China, especially on package tours, which constitute a major component of Palau's tourism market (Beldi, 2018). Hence, China has a strong hand in the economy of Palau, and Chinese tourists have been weaponized by China to serve its foreign policy – namely, to lure and threaten Palau to shift its diplomatic recognition from Taipei to Beijing. The carrot and the stick have both been used. China's attempt at coercion focused on the use of its Approved Destination Status (ADS) system, which permits state-run tour agents to operate package tours only with listed countries (Arita et al., 2012). In other words, China can punish any country that challenges its national interests simply by removing it from its ADS list and prohibiting operators from sending tourists to that country. This was applied to Palau at the end of 2017, when the Chinese government designated Palau an illegal destination and banned tourist groups from visiting because it refused to sever diplomatic relations with Taiwan (Master, 2018).

Figure 1.10 shows the fluctuations in tourist arrivals from China and the rest of the world. According to the Palauan statistics authority, the travel ban imposed by China caused a sharp decline in the number of Chinese tourists, which dropped 22.7% between the third and fourth quarters of 2017. Simultaneously, the total number of tourists declined by 16% over the same period.[11] The statistics correspond with reports and interviews that indicated the Chinese travel ban had inflicted serious damage (Lyons, 2020). Palau's hotels experienced a substantial drop in bookings after the ban, and Palau Pacific Airways announced the termination of flights to China (Master, 2018). However, this attempt at economic coercion was ineffective in its efforts to force Palau to adjust its foreign policy. Palau still maintains diplomatic relations with Taiwan, and both sides built closer ties after the outbreak of the pandemic (Agence France-Presse, 2021). Overall, the effectiveness of China's economic coercion against Palau was not decisive, even though it did inflict harm. Palau did not yield to China's demands and did not change its diplomatic orientation. Such an outcome highlights how bilateral trade relations are only one part of the picture when geopolitics and strategic interests are in play. Strong support from the US, including security assurances and financial support, is the primary buttress that enables Palau to resist pressure from China (Seidel, 2018). The fact that the US ambassador to Palau accompanied the Palauan president on an official visit to Taiwan demonstrates the US's strong influence over the Pacific island and its intention to counter China's growing presence in the Pacific.

Economic coercion against Australia (2020–)

China is Australia's largest trading partner, and the relationship between Canberra and Beijing reached new heights in 2015 when the Australia–China free trade

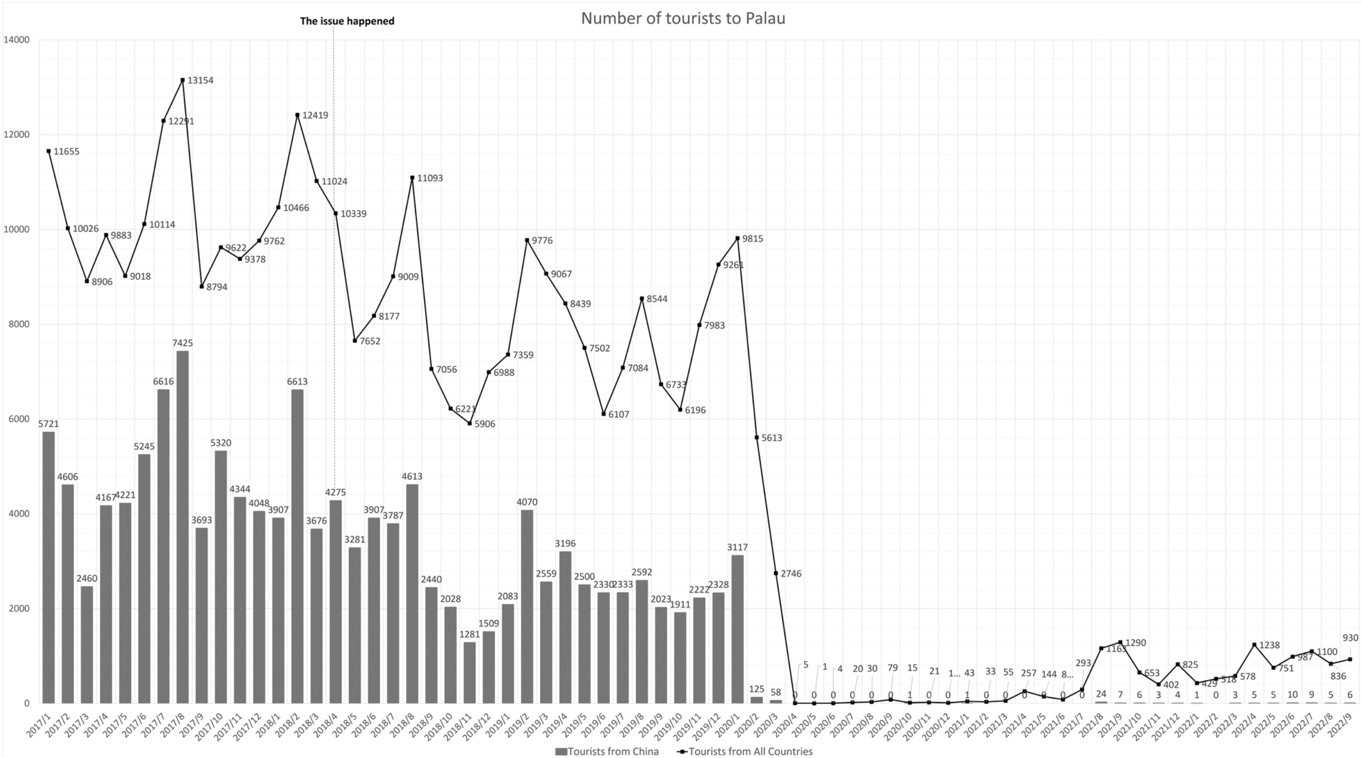

Figure 1.10 Numbers of tourists from China and other countries to Palau.

Note: The number of tourists sharply decreased since February 2020 because of the outbreak of COVID-19.

agreement was signed.[12] However, in 2020, bilateral relations sharply deteriorated due to Canberra's support for an independent investigation into the origins of COVID-19 and China's handling of the initial outbreak (Wong, 2021). In addition, Canberra expressed concern over China's implementation of the National Security Law in Hong Kong and its suspected use of forced labor in Xinjiang (Reuters, 2021). These steps antagonized the Chinese government, and it has since imposed a series of restrictions and additional duties on the import of Australian goods, such as barley, wine, beef, lobster and coal. The measures have ranged from levying extra tariffs to imposing import bans and restrictions. Like Canada, Australia also brought Beijing's attempt at economic coercion to the WTO. China responded that its trade measures were applied in a manner consistent with its obligations under the WTO.[13]

The impact on the export of the targeted Australian products is illustrated in Figures 1.11 to 1.13. The data suggests that China's trade restrictions resulted in significant decreases in export values. We can even observe that the exports of Australian wine, barley and coal were banned outright after December 2020. However, the deterrent effect has not been as pronounced as expected, because the Australian government successfully diverted most of the targeted products to other countries. For example, overall, exports of barley and wine increased in the aftermath of China's moves. Coal exports also thrived in 2021 despite China's ban. Commentators noted that "Australian coal exporters seem to have been quite successful in diverting to other markets" (Tan, 2021), and "exports to other markets initially rose as China first reduced its coal imports starting around mid-year. The trend then accelerated as China targeted Australian coal specifically starting in October 2020" (Tan, 2021). Moreover, Figure 1.14 shows a positive trend (albeit with some ups and downs) in the total value of exports from Australia to China despite the economic measures. The data shows that while Beijing resorted to trade disruption in an attempt to influence Canberra, it remained highly dependent on exports from Australia in other sectors.

China's attempt at economic coercion against Australia was also highly complex, and it touched on many sensitivities. Australia and China had originally had a close economic relationship, with Australia being one of the first Western countries to sign a free trade agreement with China. China also accounts for a large proportion of foreign investment in Australia, and many Chinese students go to Australia for higher education. Beijing's initial move was likely fueled by anger, but the measures should also be seen in the broad context of Australia's close alliance with the US, including its role in the Indo-Pacific Strategy and, subsequently, the Australia, UK and US security pact (AUKUS). Trade data demonstrates that China effectively prevented the targeted products from entering the Chinese market, but that Australia overcame any losses by diverting the products to other markets. Moreover, Australia's total export volume to China increased despite the sanctions, due largely to China's demand for Australian iron ore. Australia did not yield to China's demands for changed policies and challenged the legality of the measures with the WTO. China's attempt at economic coercion cannot be said to have been effective or successful.

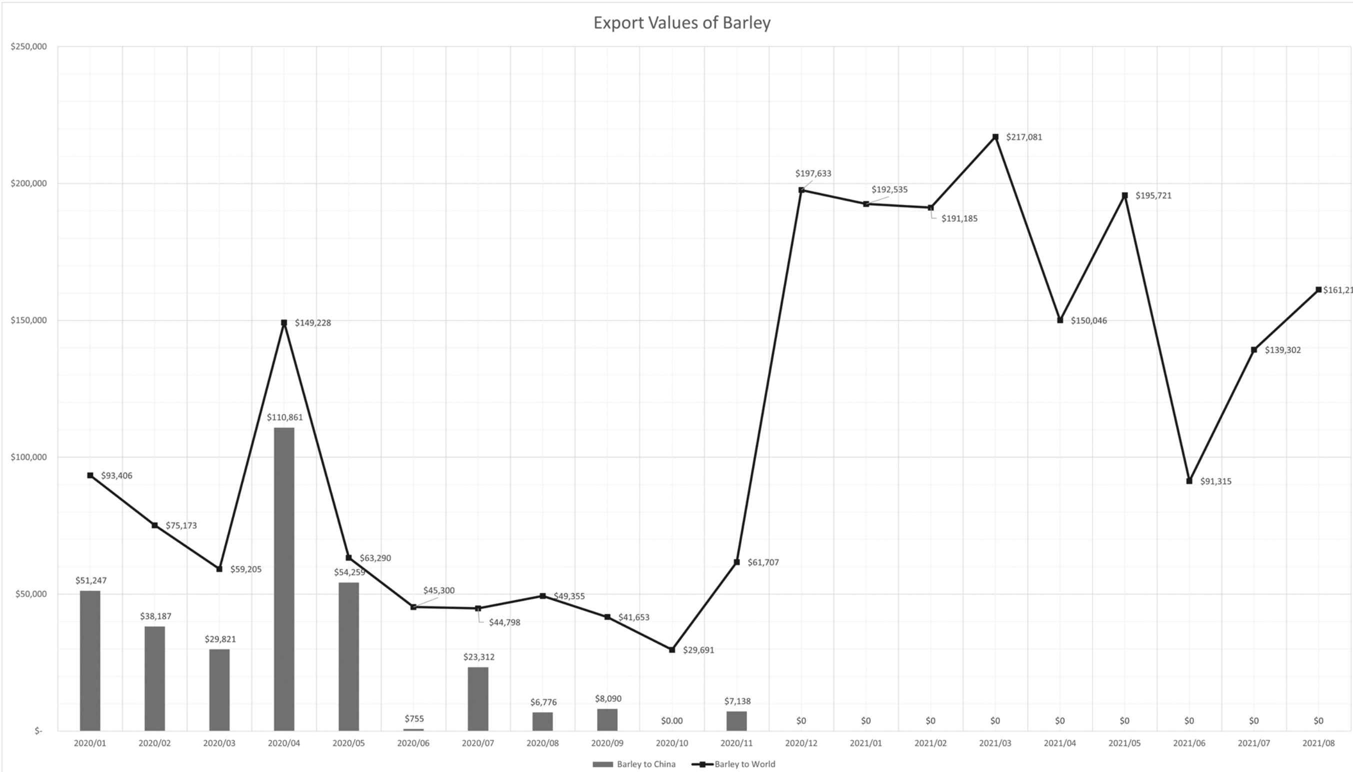

Figure 1.11 The export value of Australian barley to China.

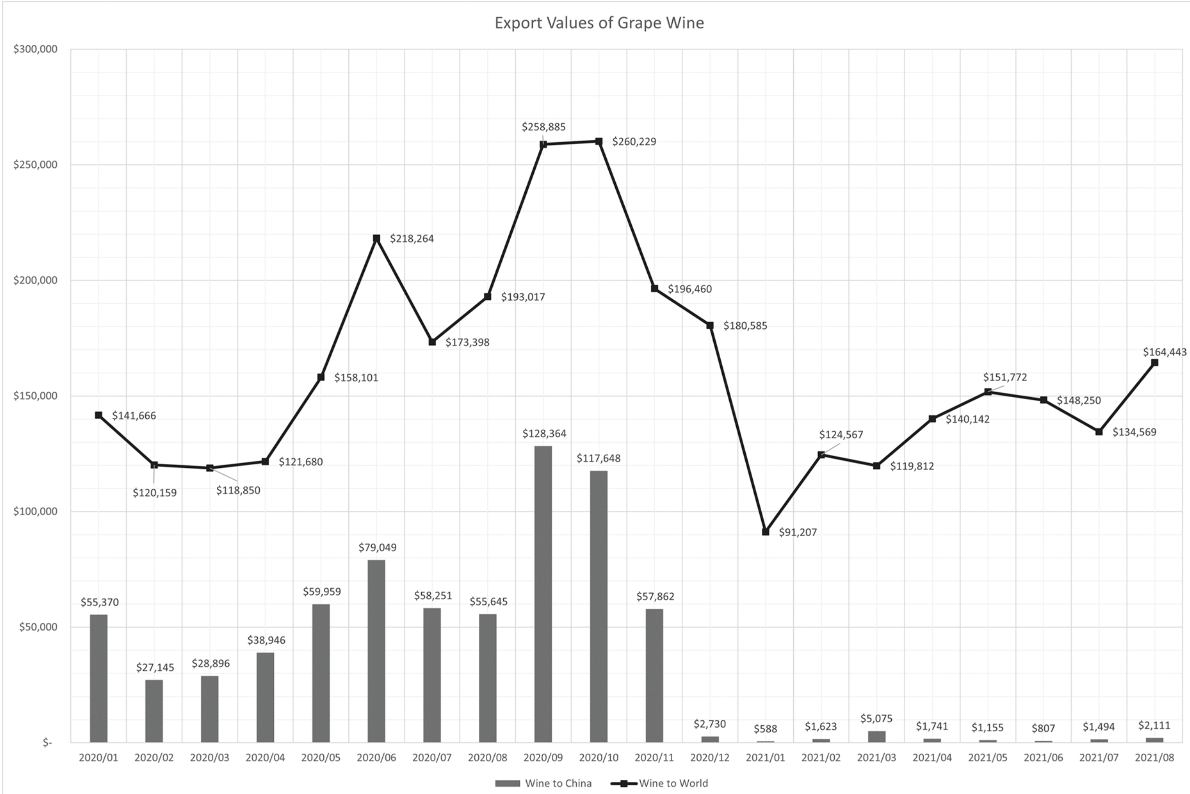

Figure 1.12 The export value of Australian wine to China.

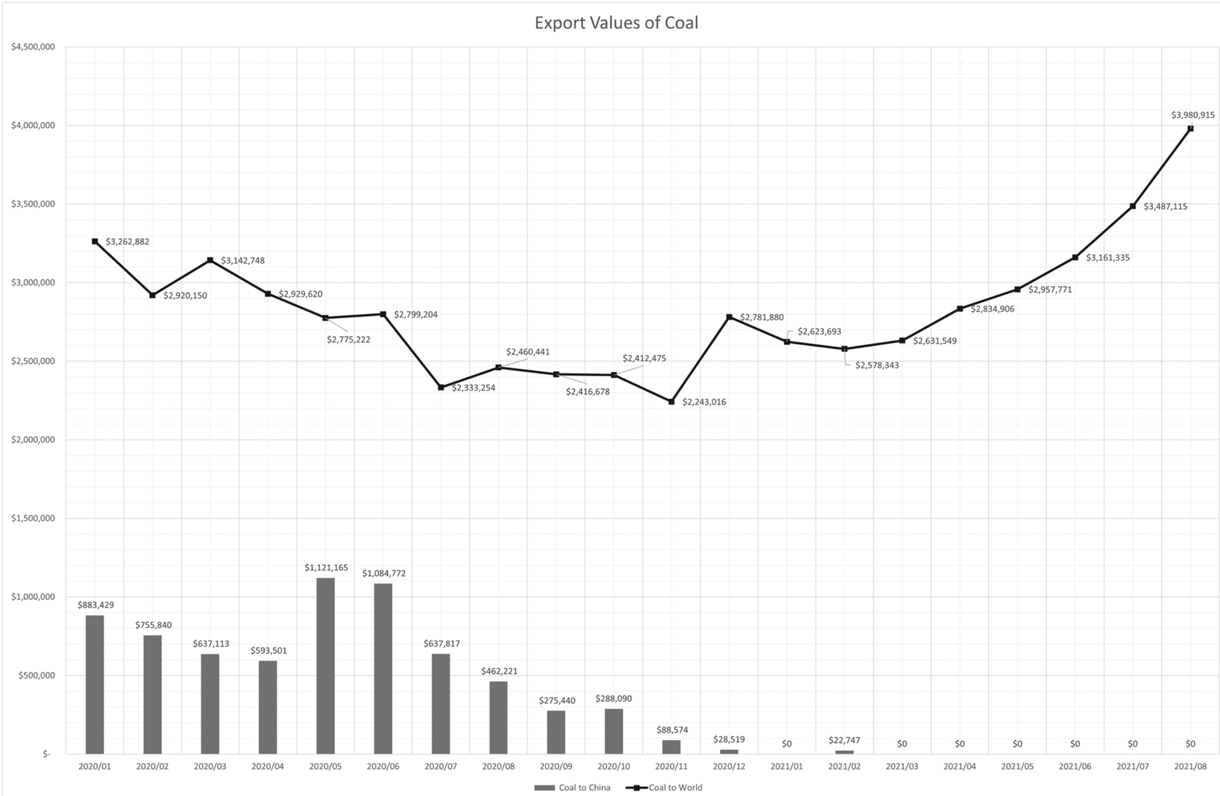

Figure 1.13 The export value of Australian coal to China.

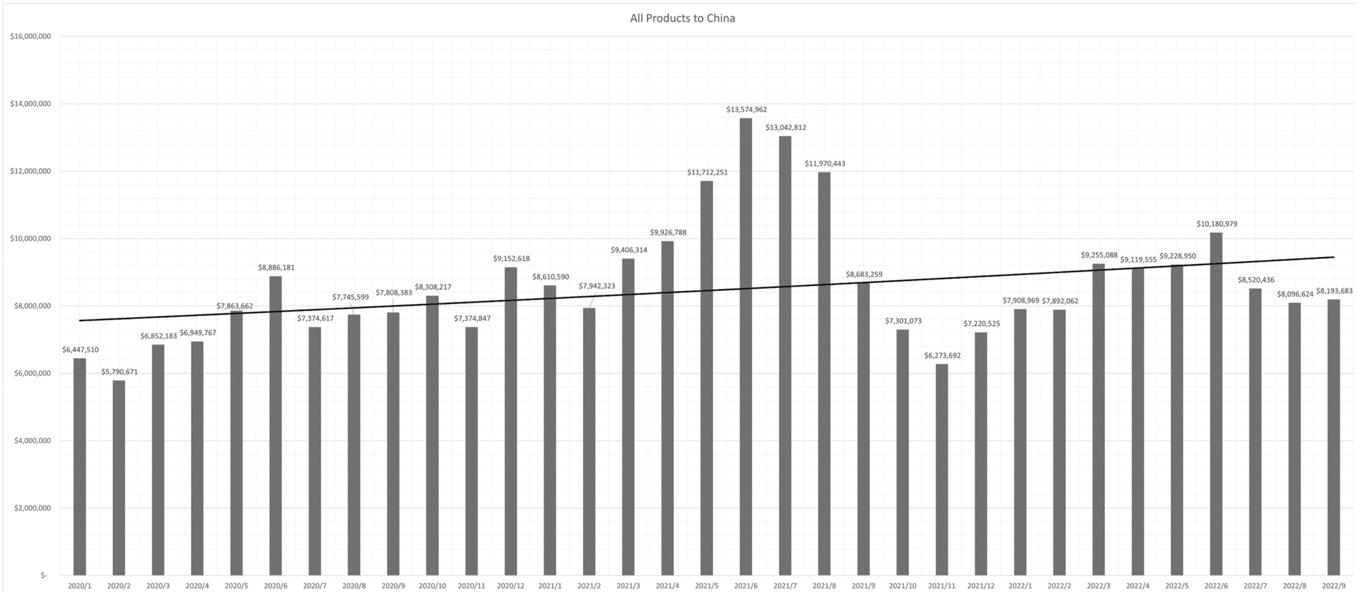

Figure 1.14 Total export values from Australia to China.

Economic coercion against Lithuania (2021–)

China and Lithuania established diplomatic relations when Lithuania achieved its independence from the Soviet Union in 1991. However, the relationship has not been easy. In 2021, Vilnius withdrew from the China-CEEC (Central and Eastern European Countries) framework, known as the 16+1 format, because the mechanism failed to deliver sufficient benefits. Lithuania's foreign minister further appealed to other EU countries to form a unified policy to counter threats from China (Lau, 2021a).[14] The final factor in the escalating confrontation was Lithuania's decision to allow Taiwan to open a de facto embassy in Vilnius under the name of the "Taiwanese Representative Office" in November 2021 (Huang, 2021). China accused Lithuania of undermining its sovereignty (FMPRC.GOV, 2021)[15] and downgraded diplomatic ties from ambassadorial level to that of chargé d'affaires (Lau & Momtaz, 2021). Additionally, an attempt at economic coercion was launched. Some Lithuanian enterprises reported that China appeared to be hindering economic transactions (Davidson, 2021). Lithuanian enterprises further reported that Chinese customs authorities were blocking their exports by removing Lithuania from the Chinese customs registry system (Sytas, 2021).

Among exports from Lithuania to China, dairy products, beef and timber were reported to have faced disruptions. Hence, we investigate the trade flow of these three products to explore the effects of China's measures. Figure 1.15 displays the values of Lithuanian beef, dairy products and timber exports to China from January 2021 to October 2021. We can observe that the export values of the targeted products declined significantly after the confrontation began. There were further falls after December 2021 in terms of total exports, following Beijing's decision to remove Lithuania from its customs registry system (Figure 1.16). The Lithuanian government showed no signs of backing down and appeared robust enough to withstand the pressures from China. It further appealed to the European Commission, which raised concerns over China's unannounced sanctions with the WTO (Nardelli & Baschuk, 2021). Unlike other EU members that have significant interests in maintaining close relations with China, Lithuania's relatively few economic ties have been a shield against attempts at coercion. Given that Lithuania has little to lose from the dispute, it can stand firm against the pressure (Lau, 2021b).

China's coercive and retaliatory measures against Lithuania for allowing Taiwan to establish a representative office under its own name went beyond the expectations of the EU. The deletion of Lithuania from China's customs registry system, in effect, means there is a complete ban on Lithuanian exports to China, a blatant violation of WTO laws. In addition, China imposed secondary sanctions by pressuring European enterprises to reject intermediate goods from Lithuania (BBC, 2022), a move that undermines the fundamental principle of the EU internal market: the free circulation of goods. For these reasons, the European Commission felt obliged to challenge the compatibility of China's restrictive measures at the WTO. China's economic sanctions on Lithuania also had repercussions in the US. The EU's vice president/high representative, Josep Borrell Fontelles, and the US

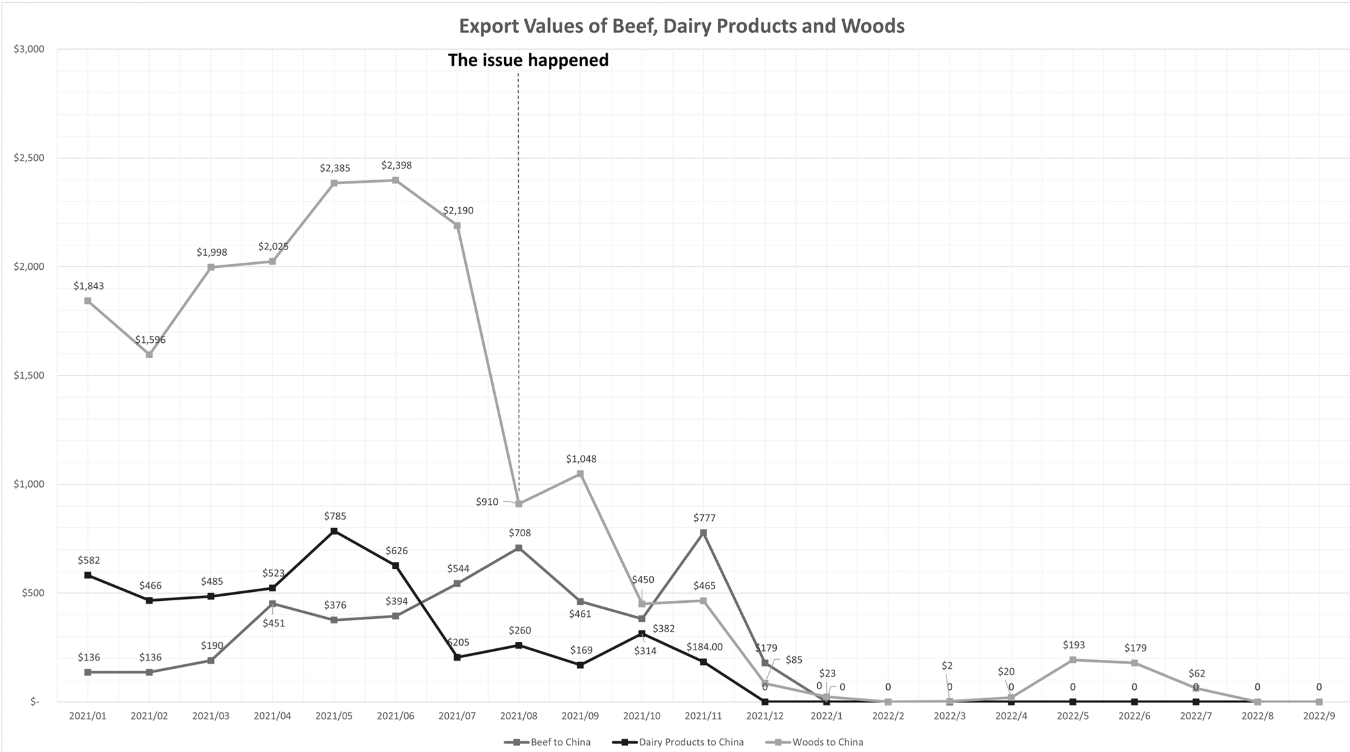

Figure 1.15 The export value of Lithuanian targeted products to China.

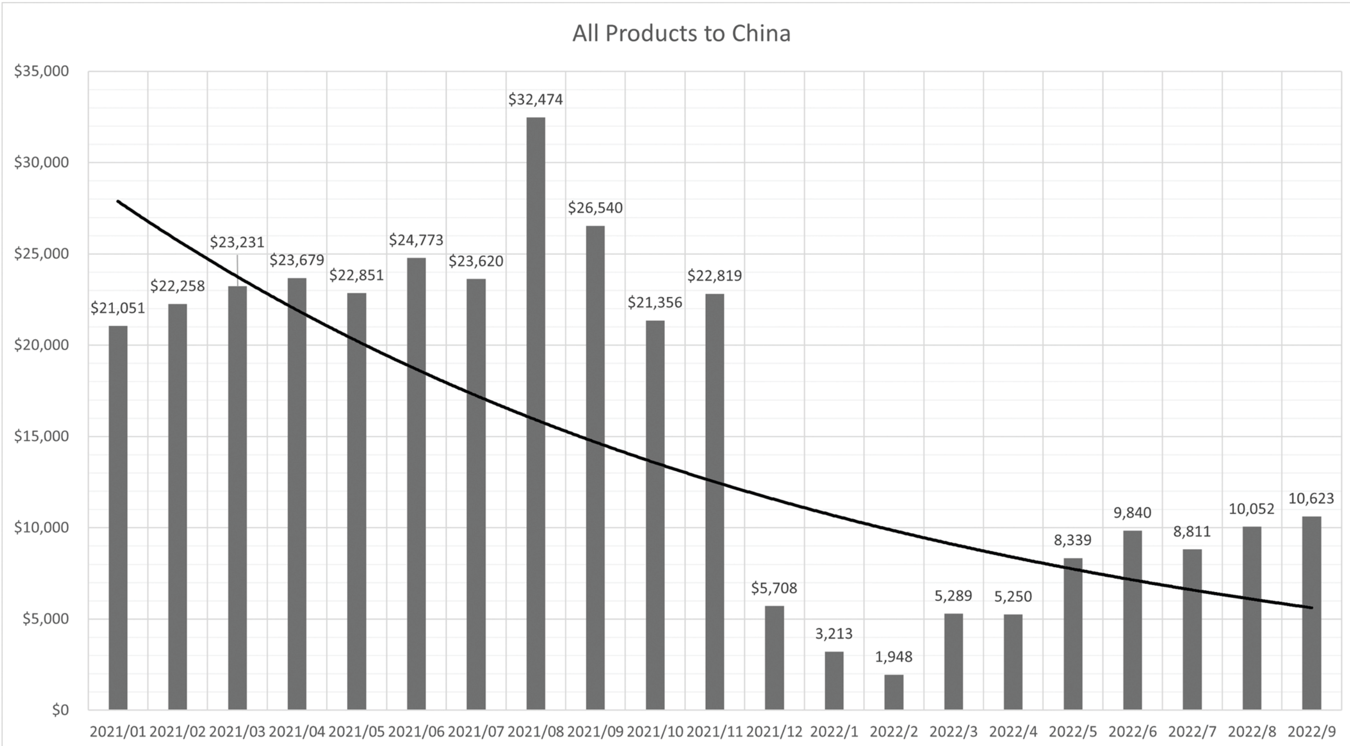

Figure 1.16 Total export values from Lithuania to China.

secretary of state, Antony Blinken, "highlighted their shared concerns about escalating political pressure and economic coercion by the People's Republic of China against Lithuania, which are impacting both U.S. and European companies" (US State Department, 2021).

To date, China's attempt to intimidate Lithuania over its outreach to Taiwan has failed to effect any change in policy or behavior. In doing so, China also sought to undermine the fundamental principles of EU integration and violated the spirit of the WTO. China's sanctions cannot be said to have been effective, notwithstanding their scale and intensity.

The effectiveness of China's attempts at economic coercion and legal and policy redress

New trends and the effectiveness of Chinese economic coercion

After examining China's recent use of coercive economic measures, we demonstrated that China has expanded its use of economic coercion as an important component of its foreign policy. The punitive measures have primarily been triggered when China believes foreign countries are challenging its core interests, such as meetings with the Dalai Lama, territorial or maritime disputes, or any official engagements with Taiwan. Moreover, a recent trend seems to indicate that even relatively minor offenses against China, such as Meng Wanzhou's detention or the appeal to China to be transparent over the COVID-19 outbreak, may also result in an economic backlash. Moreover, it seems that China no longer seeks to keep its economic countermeasures free from challenges through the WTO. This development can be understood as an example of China's growing skills at using legal weapons and its greater confidence in standing up to Western countries in international judicial forums (Yang, 2015).

In terms of its success rate in inflicting damage and forcing policy changes, the results reveal that China succeeded in some circumstances but not in others (Harrell et al., 2020, pp. 29–30).[16] Any success is at best termed limited or qualified. Specifically, economic coercion is much more effective against those countries with the following characteristics. First, economic dependence on the Chinese market results in greater harm (Ravindran, 2012, p. 116; Reilly, 2013, p. 9; Macikenaite, 2020, pp. 110–112). For instance, China is an important export market to Mongolia, the Philippines and Norway. Hence, punitive action resulted in a significant decrease in exports to China, and subsequently, these three countries decided to restore the relationship, either by offering a public apology or accepting the Chinese government's demands. Second, power asymmetry between China and targeted countries is a critical factor (Reilly, 2013). Coercive measures are more influential when directed against China's smaller neighbors; in contrast, larger countries have stronger leverage to withstand the pressure. As has been shown, while the trade-restrictive measures did result in visible decreases in the export or import of targeted products from Canada, Australia and Japan, these countries employed additional policy measures to mitigate the effects, enabling them to resist compromise. Moreover, while China is an important market for these countries, conversely, these developed economies also control critical supply chains of high-tech products and fundamental raw materials that are indispensable to China's economic development. Escalating confrontations with such countries might also further damage the confidence of foreign enterprises in the Chinese business environment (2020, p. 15; Patey, 2021).[17] Finally, whether a targeted country may withstand the economic coercion go beyond economic interests. Lithuania and Palau present interesting contrast. The former has little economic interests with China but the latter does, while both countries are able to stand steadfast to their policies. In case of Lithuania, the solidarity from the EU and the support by the US are critical for Vilnius to insist its decision. Similarly, the US position also plays a key role in Palau's decision to keep its diplomatic tie with Taiwan.

In summary, we can conclude that China's use of economic coercion is less effective when China and the targeted countries maintain a highly interdependent economic relationship. In contrast, if the targeted country one-sidedly depends on China for exports, China's economic coercion is more likely to succeed. However, it must be recognized that measuring "success" or "failure" merely by examining the impact on trade may be incomplete, because other political or diplomatic factors can also help nudge countries toward compliance or resistance (Harrell et al., 2020, p. 30). China's economic coercion against Lithuania best illustrates this. Whereas Lithuania's exports to China significantly decreased and European and foreign enterprises investing in Lithuania were also affected, the economic costs did not automatically produce policy changes from Lithuania. Any retreat by Lithuania would have had geopolitical implications, signaling an erosion both in European solidarity and in transatlantic partnerships.

Legal and policy redress against China's use of economic coercion

Diversifying economic partnerships to reduce dependence on the Chinese market

As shown by the descriptive statistics results in the previous section, excessive economic reliance on China renders countries deeply vulnerable to economic coercion (Mazarr & Wyne, 2020). Hence, with a view to mitigating the negative impacts arising from China's economic statecraft, diversification of economic partners is the most effective means to retain independent action and stave off China's fast-growing influence. For instance, in response to China's export ban on rare earths, the Japanese government reacted by supporting its domestic enterprises in their efforts to develop new technologies to reduce dependence on the minerals (Hui, 2021). Alternatively, strengthening a country's role in the supply chain of critical goods for China's domestic production is an effective way to deter sanctions. While China has one of the largest consumer markets in the world, it is still highly dependent on market access, investment flows and advanced technology transfers from Western countries and their allies. Hence, if targeted countries control critical items that are necessary for China's national development blueprint, such as semiconductor chips, coal and other sources of energy, they can exert this economic leverage to pressure China to refrain from implementing coercive measures. China's aggressive economic statecraft cannot last long if its coercive measures harm domestic industries.

Legal redress and collective responses against China's economic coercion

China's economic statecraft is aimed at challenging the international order established by the US in an attempt to forge a direction better suited to China's national interests (Williams, 2020). The competition between China and the US-led camp has an increasingly important ideological component (Mazarr & Wyne, 2020). Therefore, economic coercion employed by China should not be considered as merely an example of bilateral discord between China and the targeted country. Instead, these coercive measures should be understood in the context of China's ambition to use its economic power to reshape the current rules-based international order (Ginsburg, 2020).

In response to Beijing's ever more aggressive foreign policy, we argue that the immediate priority for democratic countries is to work together and undertake joint action to confront Chinese attempts at economic coercion. To begin, an information-sharing and coordination mechanism should be established. Even though there is no doubt that China is increasingly adopting coercive measures, there has been no attempt at a systematic examination of the patterns, triggers and implications of Chinese actions. The primary role of any coordinating mechanism should be cooperation between democratic partners to better understand China's methods and predatory activities (Harrell et al., 2020, p. 36). Annual ministerial-level meetings between like-minded countries could be held to serve as a platform for cooperation, and to incorporate all possible legal and diplomatic means to build resilience against economic coercion. Ideally, democratic countries could consider the feasibility of launching an international code of conduct in response to China's growing assertiveness, with the aim of regulating the use of economic coercion as a policy tool in international relations. Recently, the EU initiated a proposal for an anti-coercion instrument (ACI), a positive step toward cooperative action (European Commission, 2021).[18]

In addition to any preventive mechanism, legal remedies under international law should also be in the toolbox for targeted countries (Glaser, 2021). Available international forums include the WTO and the UN system, such as the International Court of Justice (ICJ). Each could be employed depending on the nature of the Chinese action. Some cases could be challenged for violating the principles of noninterference and the prohibition on intervention under Article 2(4) of the UN Charter (Helal, 2019–2020, pp. 98–108). China could also be challenged when it deviates from its legal commitments under WTO agreements. Some might contend that resorting to the international legal system is unlikely to provide meaningful relief for targeted countries because China tends to tailor its measures with such potential challenges in mind (Harrell et al., 2020, p. 23; Kreuzer, 2018, pp. 7–14). Additionally, China has not consented to the compulsory jurisdiction of the ICJ.[19] Beijing can also utilize its influence as a permanent member of the UN Security Council to counter criticism of its actions. However, we believe that recourse to legal remedies through the WTO or other international judicial forums should still be seriously considered. China now presents itself as a "responsible great power" within the international system and a faithful supporter of UN-centered multilateralism. China could suffer significant reputational cost if it declined to resolve disputes through a rules-based international judicial forum or respond to concerns about its aggressive economic statecraft from the international community (Guzman, 2002).[20]

The strategies that Japan, the US and the EU collaboratively adopted, namely, to seek legal recourse against China through the WTO dispute settlement mechanism, could be seen as a successful model (Glaser, 2021). Trade data confirms that after the WTO Appellate Body published its report, China lifted relevant trade restrictions on rare earths exports and notified the WTO Dispute Settlement Body of its implementation.[21] Currently, Canada, Australia, Lithuania and Taiwan are seeking to launch, or have already launched, consultation requests under WTO platforms to express their concerns over China's use of unilateral economic sanctions (Glaser, 2021; Nardelli & Baschuk, 2021).[22] If these countries can adopt a coherent position and produce legal remedies in international forums to challenge China, it would constitute a significant blow to China's ever more assertive economic statecraft.

Conclusion

After reviewing a series of cases surrounding China's use of economic coercion, we found that while China is a trade giant, its use of economic pressure is not always effective. Its impact is limited or is qualified by a number of factors. In some cases, exports from the targeted sector to China do shrink while total global exports increase, as shown in the case of Canadian canola seeds and Australian barley. Moreover, whereas in some cases, such as Australia, the export volume of a given targeted sector to China decreases, the country's total exports to China increase. In some cases, such as the case involving Canadian canola seeds, China eventually implicitly abandoned its import ban because of large domestic demand for the product. Therefore, if a country or a given sector is less dependent on China, it is less likely that China's attempt at economic coercion will be effective. The effectiveness of China's economic coercion also depends on the elasticity of China's demand. If China is highly dependent on the targeted sector and has no access from other sources, it is unlikely to be able to sustain the pressure. Above all, collective action by like-minded countries can help deter China, whether by providing relief for the targeted sector, lending support to the targeted country, or challenging the measures in question through international forums.

Some policy implications can be drawn. Countries should be warned of the danger of economic overdependence on China and vulnerability to China's economic pressure, with a consequent loss of policy autonomy. The diversification of markets is one of the highest priorities for countries that aim to shield themselves against China's economic coercion. Whilst such diversification takes time, once a country is targeted by China, like-minded countries should demonstrate their solidarity and safeguard fundamental values and principles underpinning the international order. Despite its limitations, action by the WTO can have a deterrent effect through the naming and shaming of China's activities. The WTO's inability to adopt disciplinary measures against violations, however, is a significant shortcoming.

Notes

1 See *The Five Principles of Peaceful Coexistence*, Ministry of Foreign Affairs, www.fmprc.gov.cn/web/ziliao_674904/wjs_674919/2159_674923/t8987.shtml (last visited Dec. 19, 2021). The five principles are: "(1) mutual respect for each other's territorial integrity and sovereignty, (2) mutual non-aggression, (3) mutual non- interference in each other's internal affairs, (4) equality and mutual benefit, and (5) peaceful co-existing."

2 The BRI is a "development strategy that aims to build connectivity and cooperation across six main economic corridors encompassing China and: Mongolia and Russia; other Eurasian countries; Central and West Asia; Pakistan; other countries of the Indian sub-continent; and Indochina." See OECD, China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape, at 3, www.oecd.org/finance/Chinas-Belt-and- Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf

3 "Chinese President Xi Jinping has a stated and demonstrated a desire to shape the international system, to use China's power to influence others, and to establish the global rules of the game."

4 We collected the data from the International Trade Centre, which is the joint agency of the World Trade Organization and the United Nations. *See* International Trade Centre, www.intracen.org/itc/about/ (last visited Dec. 21, 2021). All the values used in the figures are in thousand US dollars.

5 Zhonghua Renmin Gongheguo Guojia Zhiliang Jiandu Jianyan Jianyi Zongju (Central office of quality supervision, inspection and quarantine of the People's Republic of China), Guanyu jiaqiang jinkou sanwenyu jianyan jianyi de gonggao (General notice on strengthening inspection and quarantine of imported salmon), January 28, 2011, https://m.cqn.com.cn/zj/content/2011-02/10/content_1155486.htm

6 Statement of the Government of the People's Republic of China and the Government of the Kingdom of Norway on Normalization of Bilateral Relations, www.regjeringen.no/globalassets/departementene/ud/vedlegg/statement_kina.pdf

7 Appellate Body Report, *China – Measures Related to the Exportation of Rare Earths,Tungsten and Molybdenum*, WT/DS433/AB/R (Aug. 7, 2014).

8 South China Sea Arbitration (Phil. v. China), PCA Case No. 2013-19, Award (UNCLOS ANNEX VII Arb. Trib. July 12, 2016).

9 Mongolia Balance of Trade, Trading Economics, https://tradingeconomics.com/mongolia/balance-of-trade (Last visited Dec. 15, 2021).

10 Panel established to review Chinese measures on imports of Canadian canola seeds, WTO, www.wto.org/english/news_e/news21_e/dsb_26jul21_e.htm (last visited Dec. 20, 2021).

11 The data is collected from the official statistics database maintained by the Palauan government: www.palaugov.pw/executive- branch/ministries/finance/budgetandplanning/immigration-tourism-statistics/

12 China-Australia Free Trade Agreement (ChAFTA), Asialink Business, https://asialinkbusiness.com.au/china/getting-started-in-china/china-australia-free-trade-agreement-chafta?doNothing=1

13 Panel established to examine Chinese duties on imported Australian wine, WTO, www.wto.org/english/news_e/news21_e/dsb_26oct21_e.htm; Australia initiates WTO dispute complaint against Chinese barley duties, WTO, www.wto.org/english/news_e/news20_e/ds598rfc_21dec20_e.htm

14 Lithuania stressed that "it is high time for the EU to move from a dividing 16+1 format to a more uniting and therefore much more efficient 27+1."

15 The spokesman of China's Ministry of Foreign Affairs blamed Lithuania for "brazenly violat[ing] the spirit of the communiqué on the establishment of diplomatic relations between China and Lithuania and severely undermin[ing] China's sovereignty and territorial integrity."

16 The success or failure of coercive measures is be evaluated by several factors, including any change in behavior by third countries or any expression of formal apology or regret, any substantial concessions or commitments, and the amount of harm inflicted on targeted countries.

17 For instance, even after imposing export restrictions on rare earths, China refrained from escalating the confrontation with Japan for fear of jeopardizing high-tech Japanese investment. Tougher measures would have further undermined the confidence of Japanese companies in the Chinese investment environment. Similarly, hefty anti-dumping tariffs and other trade restrictive measures on Australian barley, wine, lobster and coal exports were balanced by an increase in other Australian exports to China. These included mineral resources (i.e., iron ore) where China faces difficulties in finding replacements. The same happened in the case of Canada, where Canada, the world's largest canola exporter, constrained China's ability to uphold a widespread, long-term ban. Without giving explicit notice, China resumed the procurement of Canadian canola seeds because of food insecurity caused by the pandemic. Additionally, as we have already demonstrated, total export values from Australia and Canada to China during the year when the measures were imposed were only slightly lower than the year before, which indicate that overall economic relations remained robust regardless of the attempt at economic coercion.

18 Lithuania and other EU member states have expressed concern about the use of economic coercion and appealed to the EU Commission to establish a mechanism to deter such tactics. This led to the proposal for an EU-level legislative instrument to deal with such disruption through a structured and uniform approach. According to the proposal, the concept of economic coercion is defined as "a situation where a third country is seeking to pressure the Union or a member state into making a particular choice by applying or threatening to apply measures affecting trade or investment." If one member state is targeted, the EU is empowered to respond through countermeasures, including restrictions on access to the EU market. The EU stated that possible countermeasures under the ACI will be exercised only when necessary and will be consistent with international law. Most importantly, the EU's ACI proposal also emphasized the importance of creating a platform to promote international collaboration with other non-EU member states on the issue of tackling economic coercion. Such a cooperative mechanism corresponds to our policy recommendations in terms of employing a multilateral approach to deter China from using economic coercive measures as part of its economic statecraft.

19 The Statutes of International Court of Justice, Art. 36.2.

20 Regarding the concept of reputational costs and its relationship with international law compliance.

21 Understanding between China and Japan regarding procedures under Articles 21 and 22 of the DSU, *China – Measures Related to the Exportation of Rare Earths, Tungsten, and Molybdenum*, WT/DS433/15 (May 26, 2015).

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2 The perils of Chinese foreign aid

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Introduction

The economic growth of China in the twenty-first century has made it a rising global power and has also inspired a burgeoning body of literature exploring how China is reshaping the landscape of international relations (Beckley, 2012; Brooks & Wohlforth, 2016). For instance, China launched the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB) in the mid-2010s to expand and deepen its economic engagement with other countries (Yu, 2017). The participants in these initiatives include countries that are unsatisfied with the US-led international economic order (Broz et al., 2020). As of the end of 2021, China was the leading trade partner of more than 120 countries and an important aid provider for over 93 emerging-market countries. China also increasingly asserts itself on the international stage (Chang-Liao, 2016; Johnston, 2013), a process that accelerated following the outbreak of the COVID-19 pandemic in 2020 (Martin, 2021).

China's tremendous economic growth since the 1980s has transformed it from an aid recipient to a major donor. Dreher et al. (2021, p. 139) report that China officially "committed, implemented, or completed" foreign development projects worth US$354 billion between 2000 and 2014. The US provided $394 billion of official financing to foreign countries during the same period. As a result, scholars have paid careful attention to the motives behind China's foreign aid programs and their consequences (Bräutigam, 2011b; Dreher et al., 2021; Strange et al., 2017).

China strategically allocates its aid to fulfill various political goals (Dreher et al., 2018), one of which is the luring of Taiwan's diplomatic partners to switch diplomatic recognition to Beijing as a way to suppress Taiwan's international space (Rich, 2009). It maintains a policy of not offering foreign aid to countries that maintain formal diplomatic relations with Taiwan, and it uses foreign aid to convince countries, especially less developed ones, to sever official diplomatic ties with Taiwan (Rich, 2009). Since China increased its international influence at the beginning of the twenty-first century, 19 countries cut formal diplomatic relations with Taiwan between 2001 and 2021. Recent examples include the breaking off of formal diplomatic relations between Taiwan and seven countries from December 2016 to September 2019, including São Tomé and Príncipe (2016), Panama (2017), the Dominican Republic (2018), Burkina Faso (2018), El Salvador (2018), the

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Solomon Islands (2019), and Kiribati (2019). Additionally, Nicaragua severed diplomatic ties with Taiwan in 2021. Although some countries have switched their recognition back to Taiwan, such as Nauru, China seems to have the upper hand in this diplomatic battle for recognition. Figure 2.1 illustrates the total amount of Chinese aid (in logged US dollars) and the number of Chinese aid projects awarded formal diplomatic partners of Taiwan from 2000 to 2017. It reveals that countries which maintained formal diplomatic relations with Taiwan usually did not receive aid from China, and that many former diplomatic partners of Taiwan began to receive aid from China after they made the switch.

China's use of foreign aid to fulfill its strategic and political goals has raised a number of questions for scholars and policymakers. Organization for Economic Cooperation and Development (OECD) countries offer official development assistance (ODA), with the stated aim of promoting the economic development and welfare of developing and underdeveloped countries. Donor countries usually set conditionalities that require recipient countries to implement economic or political reforms. These often address macroeconomic mismanagement, human rights violations, and corruption (Molenaers et al., 2015; Svensson, 2000). If the recipient countries fail to meet the requirements, they risk cuts in aid. However, Chinese foreign aid is usually unconditional (Li, 2017). Some scholars claim that this accords greater flexibility for recipient countries to use the aid in more efficient ways (Lagerkvist, 2009). Furthermore, Chinese aid may benefit recipient countries in certain respects, such as short-term economic growth and the reduction of economic inequality (Bluhm et al., 2020; Dreher et al., 2021). Nevertheless, there is evidence that Chinese aid worsens social and political outcomes because it does not meet the real needs of recipients and is designed to serve only China's strategic goals (Naim, 2007). More importantly, the lack of conditions means no accountability (Ping et al., 2022), so political leaders in recipient countries have inadequate incentives to use the aid effectively. It is against this backdrop that we aim to investigate the political consequences of China's foreign aid with the latest "time-series-cross-national" datasets developed by several international teams.

Before proceeding, we would like to note that China has also become a major lender as well as a donor. A growing share of Chinese financing comes in the form of commercially oriented debt-based financing rather than foreign aid. There is no substantive evidence that the China-led AIIB, an international financial institution that follows international standards, issues loans with conditions attached (Chen, 2020). However, it is less clear whether projects under the Belt and Road Initiative (BRI), whose loan packages are not transparent, are offered without conditions. Hurley et al. (2019) have reported that some BRI projects may include conditionalities that can result in "debt traps" or "debt for equity" swaps when borrowers face insolvency. To comprehensively evaluate how China's financial outflows influence foreign countries, we focus on China's overall development finance portfolio, including aid projects, export credits, and debt (Dreher et al., 2022).

In the next section, we discuss the political and social perils of Chinese aid in recipient countries and consider related hypotheses. In the empirical section, we

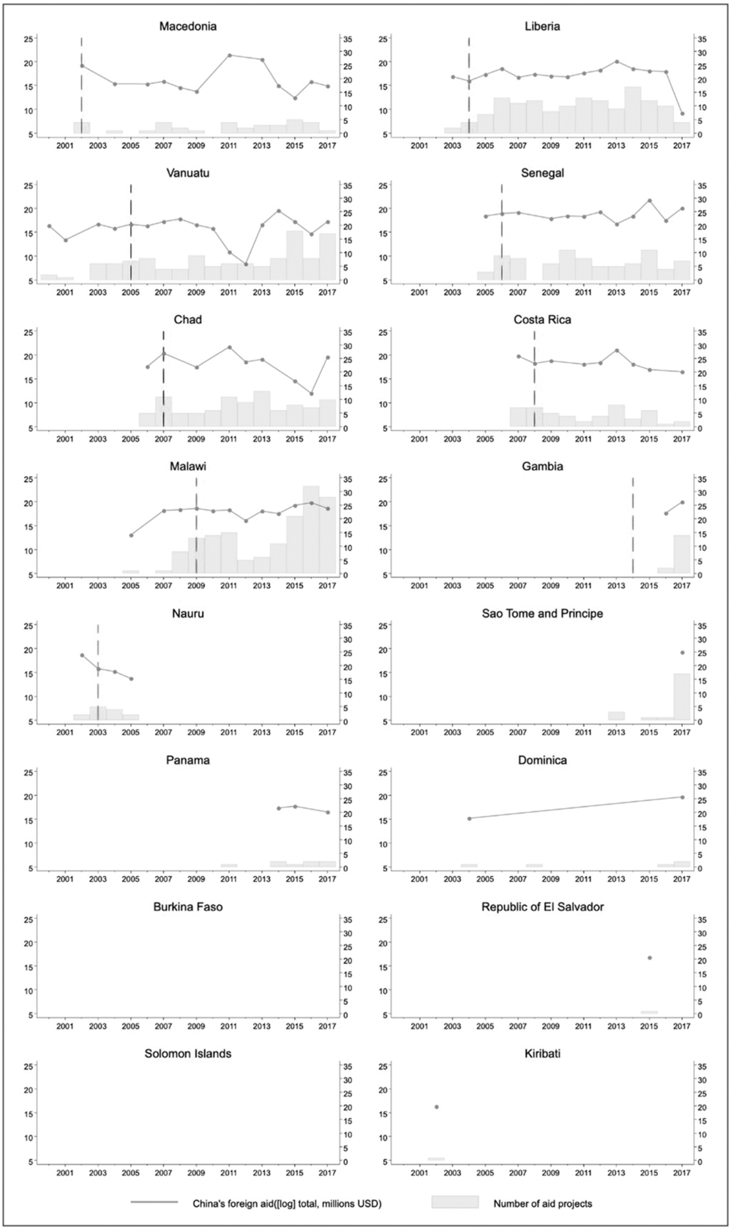

Figure 2.1 Chinese aid to formal diplomatic partners of Taiwan, 2000–2017.

Note: The data on Chinese foreign aid are taken from Dreher et al. (2022). The vertical dash lines indicate the year in which the recipient country cut its formal diplomatic relations with Taiwan. The data on some countries unavailable.

Source: Created by the authors.

describe our research design and test our hypotheses with empirical data. The final section discusses the implications of our findings and offers concluding remarks.

Arguments

In this chapter, we argue that China's aid, due to its frequent lack of transparency and conditionality, tends to have negative consequences in recipient countries. Although many other donors also take account of strategic considerations when allocating aid (Dreher & Fuchs, 2015; Woods, 2008), Beijing's approach has caused more alarm. As argued by Bräutigam (2011a), China's foreign aid programs are less transparent than ODA from OECD countries and are therefore less accountable (Ping et al., 2022). Some researchers have even labeled China's aid as "rogue" for its focus on political considerations (Naim, 2007), even if it can sometimes boost short-term growth (Bluhm et al., 2020; Dreher et al., 2021).

Based on previous studies, we posit that the lack of conditionality attached to Chinese aid leads to decreases in institutional quality in recipient countries, including democratic development and other institutional subcomponents, such as the rule of law, freedom of expression, and gender equality. Such aid can also have negative social consequences on public health, education, and employment. We elaborate our argument below.

Level of democracy

In the literature on foreign aid, it is well documented that foreign aid with conditionalities can promote democracy in recipient countries. The key mechanism underlying this aid-democracy nexus is that donors allocate aid with conditionalities that reward democratization, and recipient countries respond to this incentive for democratic reform. Without such conditionalities, recipient countries may view foreign aid as a form of lucrative rent and this impedes the improvement of government institutions. Using data from 122 countries between 1972 and 2011, Kersting and Kilby (2014) find that aid improves democracy in both the short and the long term. Wright (2008a, 2008b) further demonstrates that the conditionalities of foreign aid are effective in facilitating democratization in autocracies when leaders expect to remain in power during the process of political liberalization. Specifically, they need to distribute resources to larger coalitions in exchange for political support. This distribution to a larger coalition increases the prospect of election victories during the process of democratization. As a result, autocrats with larger coalitions have a stronger incentive to democratize their countries in response to aid than those who rely on smaller support groups.

We argue that Chinese aid, due to its lack of conditions for the promotion of democracy, does not facilitate democratization in recipient countries. Furthermore, it can be detrimental to their democratic development, because the inflow of Chinese aid as an alternative financial source reduces the incentive of political leaders to implement reforms that improve governance. As reported by Ping et al. (2022), the receipt of aid from China reduces horizontal accountability between judicial and legislative institutions in recipient countries. Similarly, Li (2017) demonstrates that after China became a major donor to African countries, the inflows of Chinese aid to sub-Saharan Africa reduced the effects of OECD development aid on democratization. Meanwhile, African countries have not developed higher levels of political freedom after receiving Chinese aid. Based on these insights, we propose the first hypothesis of this chapter:

H1: Countries receiving more aid from China have lower levels of democratic development.

Rule of law

According to O'Donnell (2004, p. 33), the minimal meaning of the rule of law is "that whatever law exists is written down and publicly promulgated by an appropriate authority before the events meant to be regulated by it and is fairly applied by relevant state institutions including the judiciary." In other words, the essence of the rule of law is that the state apparatus and its agents are subject to a set of legally based rules. Because the state is constrained, citizens' political and economic rights are protected. Accordingly, political institutions that uphold the rule of law and constrain political powers will contribute to economic development, because individuals are not disincentivized by potential state appropriation of their economic gains (Haggard et al., 2008; Wright, 2008a).

Previous studies have investigated the effect of foreign aid on the rule of law in recipient countries. Although donors can always set conditionalities to ask recipient countries to improve the rule of law, foreign aid programs may fail to achieve this goal, because political elites in recipient countries have little incentive to completely implement institutional reforms that undermine vested interests (Erbeznik, 2011). Nevertheless, in a recent study, Dawson and Swiss (2020) analyze the data of 154 countries between 1995 and 2013 and find that foreign aid targeting security and judicial reforms increases the likelihood of reforms that enhance the rule of law. In other words, foreign aid, when properly formulated with conditionalities, can enhance the rule of law in recipient countries (Holmes, 1999).

In this chapter, we argue that Chinese aid undermines the rule of law in recipient countries due to its non-conditionality. When receiving aid from China, political leaders have no incentive to reform, but instead disburse Chinese aid to their inner circles to sustain their power. For instance, Dreher et al. (2019) find that the birth regions of African leaders receive more Chinese aid, especially when elections are approaching and when those elections are strongly contested. Such a bias toward leaders' birth regions is not detected in foreign aid allocated by the World Bank. In other words, inflows of Chinese aid into developing countries enhance political elites' capacity to evade institutional constraints on their power. Accordingly, we propose the following hypothesis regarding the relationship between Chinese foreign aid and the rule of law in recipient countries:

H2: Countries receiving more aid from China have less adherence to the rule of law.

Freedom of expression

In this chapter, we argue that Chinese foreign aid inhibits freedom of expression in recipient countries. Existing studies find that the influence of foreign aid on freedom of expression in recipient countries varies depending on the recipient's political system. Using data from 106 recipient countries between 1994 and 2010, Dutta and Williamson (2016) find that aid has a significant positive impact on media freedom in democracies but not in autocracies. According to Dutta and Williamson (2016), foreign aid fails to promote media freedom in authoritarian countries due to a lack of oversight, accountability, and transparency. By contrast, in democratic countries where there are checks and balances, foreign aid tends to promote media freedom through financial support and improved infrastructure. We argue that this lack of conditionality renders Chinese aid more harmful to freedom of expression in autocracies than traditional ODA, because recipient countries also tend to comply with China's demands for censorship of news reports that could harm China's international image.

The political system of the recipient country and those of its trading partners are also factors when assessing the impact on freedom of expression. Gamso (2021) investigates whether the rise of China has promoted media censorship among its trading partners, and whether this varies according to their political systems. He argues that countries which trade with China have increased levels of censorship, because China wants to reduce negative media coverage. Specifically, China exports technology and provides economic incentives for its trading partners to seek control over their media environments. Using 163 countries between 2002 and 2014, Gamso (2021) finds that media censorship has spread from China to its trading partners, particularly in democracies that trade closely with China.

Based on these insights, we argue that Chinese aid does not promote freedom of expression in recipient countries, a consequence of Beijing's desire to reduce negative media coverage about China. In other words, Chinese aid is detrimental to the development of freedom of expression, because the inflow of Chinese aid increases China's market power over the recipient country and impedes the flow of any information surrounding dissatisfaction with the Chinese government. Based on these discussions, we propose the following hypothesis:

H3: Countries receiving more aid from China have less freedom of expression.

Gender inequality in politics

Foreign aid distributed in the form of ODA is sometimes tied to the condition of narrowing gender inequality. For instance, Donno et al. (2021) demonstrate that foreign aid dependence is associated with advances in women's political representation and legal equality and rights under autocracies. Specifically, autocracies enact gender-related legislation at a higher rate than democracies due to pressure from aid donors. Another way to achieve gender equality is to set gender quotas in legislatures. More female representation leads to more legislation on gender equality. Like other ODA projects, the success of foreign aid in improving gender equality via female legislative quotas depends on the donor's conditions and the recipient's willingness to accept the conditions. Edgell (2017) finds that foreign aid in general does not lead to an increase in recipient countries' gender quotas, but foreign aid from the US does. There are two mechanisms to explain this difference. On the one hand, recipient countries use gender quotas as a signal of their willingness to reform and thus secure future aid flows. On the other hand, the adoption of gender quotas results from successful foreign aid interventions specifically designed to narrow gender inequality. As a result, the more countries rely on US foreign aid, the more likely they are to adopt gender quotas.

In this chapter, we demonstrate that Chinese aid does not address gender inequality in recipient countries. Instead, it exacerbates it, because political leaders in recipient countries face less pressure to share power with female political elites in their legislatures. Based on this reasoning, we propose the following hypothesis:

H4: Countries receiving more aid from China have higher levels of gender inequality.

Corruption

It is well documented in the literature that foreign aid can lead to corruption in recipient countries. The key mechanism underlying this aid-corruption nexus is that politicians in recipient countries engage in rent-seeking activities when they receive foreign aid (Svensson, 2000). Specifically, inflows of foreign aid not only relax government budget constraints, but also lead to a decrease in the provision of public goods. Politicians have a stronger incentive to embezzle government revenue if they receive more foreign aid. However, some studies have shown that foreign aid can reduce corruption in recipient countries if the donors set conditionalities on anti-corruption measures (Asongu, 2012). China's often condition-free aid can therefore be lucrative but "toxic" (Naim, 2007). Therefore, we formulate the following hypothesis:

H5: Countries receiving more aid from China have more corruption.

Social aspects

In this chapter, we also evaluate the effects of Chinese aid on other social outcomes. We argue that the unconditional nature of Chinese aid means it makes fewer demands on governments to fund public health and education and tackle gender inequality. It effectively reduces incentives to divert funds to the social sector. It is widely accepted that "unearned income," such as natural resources or foreign aid, can encourage political leaders to disburse resources to their private patron-client networks. It is because of such moral hazards that conditions are normally attached to foreign aid. Therefore, we propose the following hypotheses:

H6a: Receiving aid from China has no effect on life expectancy in recipient countries.

H6b: Receiving aid from China has no effect on death rates in recipient countries.

H7: Receiving aid from China has no effect on primary school enrollment rates in recipient countries.

Recent studies have shown that Chinese aid can lead to short-term economic growth in recipient countries (Dreher et al., 2021). China's overseas financing is often channeled to infrastructure, which may enhance employment rates. However, such projects require more male laborers than female. Accordingly, we propose the following hypotheses regarding the effect of Chinese aid on gender inequality in employment in recipient countries.

H8a: Countries receiving more aid from China have higher male employment rates.

H8b: Countries receiving more aid from China have lower female employment rates.

Empirical analysis

Data. To test our hypotheses, we utilize the latest version of the AidData project's Global Chinese Development Finance Dataset and construct a dataset of several important political and economic variables, in addition to data on China's foreign aid and investment in 117 countries during the period from 2000 to 2017. In particular, the AidData team has made a tremendous effort to collect detailed data on China's international development projects, encompassing 13,427 projects worth $843 billion across 165 countries since 2000 (Strange et al., 2017). We note that there are other authoritative sources of data on Chinese aid, such as the source maintained by the SAIS China Africa Research Initiative (SAIS-CARI) based at Johns Hopkins University. Yet, AidData provides the most comprehensive record in that time period (Dreher et al., 2022), and for this reason, we have opted to use it in our empirical analysis.

Key Explanatory Variable. The key independent variable in this chapter is the total amount of Chinese foreign aid sent to other countries (in constant 2017 US dollars, taken from Dreher et al., 2022). We also note that China's aid refers to the Chinese government's official financing of foreign countries, including aid and debt-financed projects, because China's allocation of foreign aid does not follow the standards of the OECD Development Assistance Committee (DAC).

Dependent Variables. In this chapter, we focus on the political and social consequences of Chinese aid. The data on these variables are taken from the V-Dem project (Coppedge et al., 2021) and other international organizations, such as the World Bank. We describe the operationalization of these variables below.

Level of democracy

We use the index of electoral democracy created by the V-Dem project as a measure of democracy. The index interrogates the extent to which the ideal of electoral democracy in its fullest sense is achieved (Coppedge et al., 2021, p. 43). Specifically, this is a composite measure that investigates how responsive rulers are to citizens in the holding of elections, how freely political and civil society organizations are able to operate, whether or not elections are clean, and whether freedom of expression and media freedom allow for the presentation of alternative political views between elections. Based on our discussion in the previous section, we expect that countries receiving more Chinese aid will have lower levels of democratic development.

Rule of law

Our second dependent variable is the rule of law in countries receiving Chinese aid. Again, we adopt the index of the rule of law constructed by the V-Dem project. In particular, this measure investigates "to what extent are laws transparently, independently, predictably, impartially, and equally enforced, and to what extent do the actions of government officials comply with the law" (Coppedge et al., 2021, p. 299). As established in the previous section, we expect countries receiving more Chinese aid to have lower adherence to the rule of law.

Freedom of expression

Recent studies have paid close attention to China's export of authoritarianism to other countries. We hypothesize that China's foreign aid plays a similar role in endangering freedom of expression in recipient countries. We rely on the V-Dem project's freedom of expression index to test this hypothesis. This index measures the level of a government's "respect towards the press and media freedom, the freedom of ordinary people to discuss political matters at home and in the public sphere, as well as freedom of academic and cultural expression" (Coppedge et al., 2021, p. 307).

Gender inequality in politics

To measure gender inequality, we use the V-Dem project's index on gender quotas in legislatures. It measures whether there is "a national-level gender quota for the lower (or unicameral) chamber of the legislature" (Coppedge et al., 2021, p. 157). There are four levels of gender equality recorded by this variable: (1) no national-level gender quota; (2) a statutory gender quota for all parties without sanctions for noncompliance; (3) statutory gender quotas for all parties with weak sanctions for noncompliance; (4) statutory gender quotas for all parties with strong sanctions for noncompliance; (5) reserved seats in the legislature for women. We rescale this 1–5 ordinal variable into a

0–1 scale, with higher values indicative of more female political representation in a country's lower chamber.

Corruption

We also investigate whether countries receiving more Chinese aid engage in more corruption. We rely on the V-Dem project's data to measure the extent to which political actors use their position for private or political gain. As discussed in the previous section, politicians are more likely to abuse their power for private gain when foreign aid is allocated without conditionality. Because most Chinese foreign aid projects are non-conditional, we expect countries receiving more Chinese aid to have higher levels of corruption.

Life expectancy

We use the index on life expectancy at birth (total years) included in the World Development Indicators (WDI), which indicates "the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life."

Death rate

To measure death rates, we use the WDI index on crude death rates (per 1,000 people), which indicates "the number of deaths occurring during the year per 1,000 population estimated at midyear."

School enrollment

We use the WDI index on the enrollment of primary education to investigate the influence of Chinese aid on education. This measure indicates "the ratio of total enrollment, regardless of age, to the population of the age group that should be in primary education."

Employment

To measure the male employment rate, we use the WDI index on the employment-to-population ratio (15+, male, %), which indicates the proportion of a country's male population that is employed. We also use a similar measure for the female population.

Model Specification. We use regression models to estimate the effects of Chinese aid on political and social outcomes in recipient countries. In our regression models, we use the amount of China's foreign aid as the key independent variable to explain the dependent variables (i.e., political and social outcomes). Because a country's political and social outcomes may also be influenced by other variables, we include additional variables in our regression models to control for their influences on the dependent variables. The set of control variables include a country's ODA from other countries, GDP per capita, economic growth, population size, endowment of natural resources (as % of GDP), and political stability. The data on these variables are taken from the World Development Indicators collected by the World Bank. The data on political stability are taken from the Worldwide Governance Indicators (also developed by the World Bank). We log-transform GDP per capita and population density to address any skewing of both variables. Including these additional variables in our models partials out their confounding effects on the dependent variables and enables us to better estimate the relationship between Chinese aid and political and social outcomes.

With the variables discussed above, we follow the practices of Dreher et al. (2019) and Ping et al. (2022) and estimate two-way fixed-effects (TWFE) regression models to account for unobserved heterogeneity at the unit and time levels. In these TWFE regression models, we estimate coefficients that describe the relationship between Chinese aid and different DVs. A positive coefficient indicates a positive relationship, whereas a negative coefficient indicates a negative relationship. We also estimate clustered standard errors of those coefficients, with larger standard errors indicative of greater uncertainty. Allowing that a country's political and social outcomes may not be solely determined by Chinese aid but may also be influenced by other factors, such as its political stability and economic development, we include an additional set of IVs in our regression models, such as recipient countries' GDP per capita, economic growth, population size, endowment of natural resources, political stability, and ODA from other countries.

Estimation Results. We report the full results of our estimation in Tables 2.1 and 2.2. The numbers in both tables indicate the estimated coefficients and their standard errors (in parentheses). Specifically, a coefficient of a variable indicates the direction and magnitude of the relationship between the explanatory variable and the dependent variable. A positive number for a coefficient indicates that the explanatory variable is positively related to the dependent variable. The standard error indicates the level of uncertainty of the estimated coefficient. A larger standard error indicates greater uncertainty and renders the estimated coefficient less statistically significant, with a larger p-value. Whenever there is a cross or star sign (i.e., † or *) next to the estimated coefficient, this means that the coefficient is statistically different from 0, with a p-value smaller than 0.1, 0.05, 0.01, or 0.001.

As shown in Table 2.1, the variable *Chinese Aid* is statistically significant at $p < 0.1$ after we include other control variables. Specifically, a country receiving more Chinese aid will have lower democratic development (Model 1), rule of law (Model 2), freedom of expression (Model 3), and gender equality (Model 4). Model 5 suggests that a country receiving more Chinese aid will have more corruption. It should be noted that the variable *Other ODA & Aid* is statistically insignificant except in Model 1, where it has a positive sign. In other words, receiving ODA from other countries is less strongly correlated with recipient countries' political outcomes than receiving Chinese aid.

Table 2.2 reports models that investigate the effect of Chinese aid on social aspects. As shown in Table 2.2, the variable *Chinese Aid* is statistically insignificant

Table 2.1 Chinese foreign aid and political outcomes in recipient countries

	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 5*
Chinese Aid	−0.006*	−0.005†	−0.007*	−0.045*	0.006*
	(0.002)	(0.003)	(0.003)	(0.022)	(0.003)
Other ODA & Aid	0.027*	0.019	0.024	−0.065	−0.018
	(0.010)	(0.012)	(0.016)	(0.085)	(0.012)
GDP Per Capita	−0.011	0.027	−0.026	−0.382	−0.041
	(0.039)	(0.049)	(0.073)	(0.387)	(0.053)
GDP Growth	0.001	0.000	0.000	0.003	0.000
	(0.000)	(0.000)	(0.000)	(0.003)	(0.000)
Population	0.033	−0.091	−0.067	−1.426*	0.126
	(0.075)	(0.078)	(0.097)	(0.700)	(0.078)
Natural Resources	−0.000	0.000	−0.000	−0.000	−0.000
	(0.001)	(0.000)	(0.001)	(0.007)	(0.000)
Political Stability	0.015	−0.006	0.000	0.022	0.015
	(0.018)	(0.016)	(0.023)	(0.119)	(0.016)
Constant	−0.080	0.241	0.657	11.052*	0.780
	(0.546)	(0.553)	(0.856)	(4.553)	(0.577)
Country Dummy	Yes	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes	Yes
No. of Countries	117	117	117	117	117
No. of Observations	1,563	1,563	1,563	1,563	1,563

Note: The dependent variables (DV) in Models 1 to 5 are electoral democracy, rule of law, freedom of expression, lower chamber gender quotas, and regime corruption, respectively. Robust standard errors clustered at the country level are reported in parentheses. † $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

in Models 6 and 7, suggesting that Chinese aid has no substantive effects on life expectancy and death rates in recipient countries. Model 8 reveals that a country receiving more aid from China has lower enrollment rates for primary education. Models 9 and 10 suggest that Chinese aid has no substantive effect on male employment but is negatively related to female employment. Thus, Chinese aid has no significant effects on public health but negatively impacts education and female employment in recipient countries.

In summary, most of our hypotheses regarding the relationships between Chinese aid and recipient countries' political and social outcomes are supported by the empirical data analyzed in the models delineated in Tables 2.1 and 2.2.

To further illustrate our results, we use Jann's (2014) *coefplot* command in Stata to present the results of our regression models in Tables 2.1 and 2.2. Figure 2.2 summarizes the coefficients of Chinese aid in our regression models, with the different political and social outcomes as the dependent variables. The solid circles indicate the estimated relationships between Chinese aid and the dependent variables. A positive coefficient indicates that the relationship between Chinese aid and the dependent variables is positive. The horizontal bar, based on the standard errors of estimated coefficients, indicates the 90% confidence intervals measuring the uncertainty of our estimation. When a horizontal bar of a coefficient overlaps

Table 2.2 Chinese foreign aid and social outcomes in recipient countries

	Model 6	*Model 7*	*Model 8*	*Model 9*	*Model 10*
Chinese Aid	0.031	−0.040	−0.462*	−0.011	−0.147†
	(0.055)	(0.036)	(0.216)	(0.072)	(0.088)
Other ODA & Aid	0.358*	−0.278**	1.517†	−0.158	−0.207
	(0.153)	(0.102)	(0.848)	(0.211)	(0.279)
GDP Per Capita	1.023	0.241	−5.745	1.425	−1.744
	(1.051)	(0.713)	(5.513)	(1.278)	(1.438)
GDP Growth	0.009	−0.008	0.213*	−0.004	0.004
	(0.015)	(0.010)	(0.086)	(0.013)	(0.013)
Population	10.209***	−10.141***	25.392†	−2.309	−8.552*
	(2.456)	(1.908)	(14.118)	(2.731)	(3.350)
Natural Resources	0.008	−0.004	−0.070	−0.034	−0.015
	(0.012)	(0.008)	(0.093)	(0.027)	(0.027)
Political Stability	0.619*	−0.373*	1.744	−0.138	0.009
	(0.244)	(0.175)	(1.536)	(0.324)	(0.349)
Constant	10.401	52.656***	19.673	70.754***	100.457***
	(15.423)	(11.095)	(71.553)	(16.364)	(21.155)
Country Dummy	Yes	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes	Yes
No. of Countries	117	117	107	114	114
No. of Observations	1,563	1,563	1,240	1,516	1,516

Note: The dependent variables (DV) in Models 6 to 10 are life expectancy, crude death rate, primary school enrollment rate, male employment to population ratio and female employment to population ratio, respectively. Robust standard errors clustered at the country level are reported in parentheses. † $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

with the dashed vertical line of 0, this means that the relationship between the independent variable and dependent variables is statistically indistinguishable from 0. If a horizontal bar does not overlap with the dashed line, the estimated coefficient can be used to represent the direction and magnitude of the relationship between Chinese aid and the dependent variables.

Specifically, Figure 2.2(a) suggests that countries receiving more aid from China have lower levels of democracy, rule of law, freedom of expression, and gender equality in politics. They also have higher levels of regime corruption. All of these relationships are statistically significant (i.e., different from 0) because their 90% confidence intervals do not overlap with the dashed vertical line. Meanwhile, Figure 2.2(b) shows that Chinese aid is negatively related to the enrollment rate of primary education and female employment in recipient countries. However, Chinese aid has no impact on recipient countries' life expectancy, death rate, and male employment ratio, because their 90% confidence intervals overlap with 0.

Readers may wonder whether our results are driven by reverse causality. For instance, it may be the case that countries with a low level of democratic development are more likely to receive Chinese aid. Similarly, corrupt politicians might be more likely to receive aid from China, because OECD countries will impose

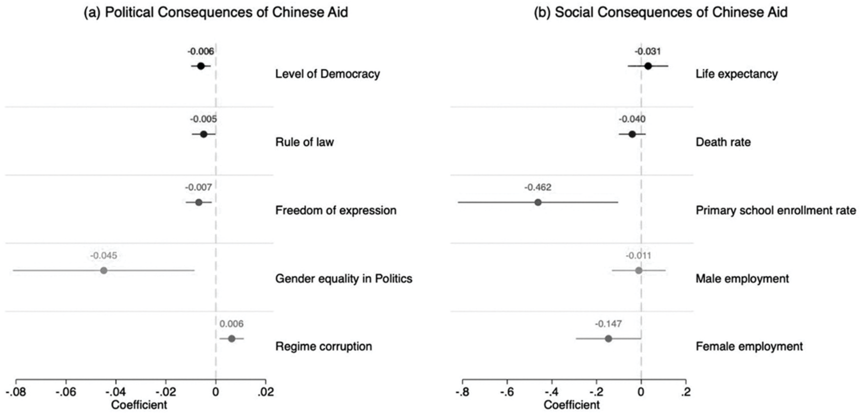

Figure 2.2 Estimates for the political and social consequences of Chinese aid.

Note: Solid circles indicate the point estimates for the effects of Chinese aid on recipient countries' political and social outcomes in the regression models in Tables 2.1 and 2.2. A positive point estimate indicates positive effects of Chinese aid on the corresponding political or social outcome. The horizontal bars indicate the 90% confidence levels measuring the uncertainty of the point estimates. A point estimate with a 90% confidence level overlapping with the dashed vertical line of 0 indicates that the effect of Chinese aid on that political or social outcome is not statistically different from 0.

Source: Created by the authors.

conditionalities on their aid disbursement, whereas China will not. To address this issue of endogeneity, we estimate two-stage instrumental-variable regression models. The main intellectual advantage of instrumental variable regression models is that researchers can use an "instrument" that is related to the key explanatory variable but unrelated (i.e., exogenous) to the dependent variable. By utilizing such relationships, researchers can use the instrumental variable to predict the key explanatory variable (i.e., China's aid) in the first-stage regression, and then use the predicted value in the second-stage regression to estimate its relationship with the outcome variable (i.e., political and social indicators). Because the instrumental variable is unrelated to the outcome variable, using the independent variable predicted by the instrument-variable in the first-stage regression avoids the issue of reverse causality (Bun & Harrison, 2019).

In this chapter, we follow previous studies and use the interaction of China's annual steel production with the recipient country's probability of receiving Chinese aid (Dreher et al., 2021; Ping et al., 2022). The insight of using this interaction term as an instrument of Chinese aid is twofold. First, China offers aid to other countries based on the surplus of its steel production, because it exports its surplus steel production to build infrastructure in recipient countries. Second, a country's probability of receiving aid from China is also determined by other variables that are both specific to themselves and exogenous to China's steel production, such as their own production of crude steel (which is included in the first-stage estimation in our models). As a result, the interaction term between China's steel production and a recipient country's probability of receiving aid from China will be conditionally exogenous to the dependent variables and satisfies the exclusion restriction as a valid instrument in our model specification.

We report the results of the instrumental-variable regression models in Table 2.3. Our key findings in Tables 2.1 and 2.2, except that of Model 8 on the enrollment rate of primary education, remain unchanged and statistically significant in the models that address the issue of endogeneity. Please note that the F statistic in the first stage of these models is slightly higher than the conventional critical value (i.e., 10), so our instrument is not weak. In other words, the results in Table 2.3, as illustrated in Figure 2.3, reconfirm that Chinese aid undermines recipient countries' democratic development, rule of law, freedom of expression, gender political equality in the lower chamber, and female employment to population ratios. It also induces corruption. It should be noted that *ODA & Aid* from other countries have different signs from *Chinese Aid* on the dependent variables in Table 2.3 (except Models 14 and 17), suggesting that *Chinese Aid* has the opposite effect on many political and social aspects.

Based on these empirical results, we conclude that Chinese aid does result in negative political and social consequences. In addition, Chinese aid does not improve public health outcomes, such as life expectancy and death rates. In other words, most of the hypotheses are supported by the empirical evidence, except H7a and H7b on primary education, and H8a on male employment.

Discussion and conclusions

Because China has become a major donor of foreign aid, concern has increased surrounding the political and economic consequences in recipient countries. Traditionally, OECD countries offer ODA with concessional and conditional terms to other countries, while China follows the principle of non-interference and offers much of its aid without conditions. Occasionally, China also uses aid to pursue its political goal of isolating Taiwan by demanding that recipient countries sever formal diplomatic relations with Taiwan.

We have argued that the non-conditionality of Chinese aid entrenches the power of political leaders without contributing to democratic development or accountability. Specifically, Chinese foreign aid can lift budget constraints that inhibit political leaders in the recipient countries. The unconditional nature of Chinese aid enables political elites to shake off restrictions over their power. Furthermore, without anti-corruption conditionality, political elites in recipient countries have a greater incentive to engage in rent-seeking activities. Recipient countries also tend to cooperate with Beijing's request that they limit any negative news reports against China, thereby inhibiting freedom of expression. Countries taking aid from Beijing also become less dependent on assistance from democratic countries and therefore have fewer incentives to improve gender equality in politics. Moreover, China's aid results in a deterioration in other social outcomes, such as primary education enrollment and female employment. In summary, receiving Chinese aid results in detrimental political and social consequences in recipient countries.

Table 2.3 Addressing the issue of reversed causality

	Model 11	*Model 12*	*Model 13*	*Model 14*	*Model 15*	*Model 16*	*Model 17*
Chinese	−0.035***	−0.012*	−0.040**	−0.303***	0.012*	−0.363	−1.244***
Aid	(0.009)	(0.005)	(0.012)	(0.076)	(0.005)	(0.548)	(0.300)
Other ODA	0.029***	0.018***	0.027***	−0.004	−0.019***	1.499**	−0.043
& Aid	(0.005)	(0.005)	(0.007)	(0.049)	(0.005)	(0.481)	(0.186)
GDP Per	(0.019)	0.021	−0.033	−0.269	−0.036	−5.782*	−1.070
Capita		(0.021)	(0.030)	(0.220)	(0.023)	(2.877)	(0.881)
GDP	0.001	0.000	0.000	0.004	−0.000	0.211**	0.004
Growth	(0.001)	(0.000)	(0.001)	(0.005)	(0.000)	(0.065)	(0.012)
Population	−0.029	−0.120**	−0.144**	−1.401***	0.143***	25.368***	−8.641***
	(0.043)	(0.039)	(0.051)	(0.376)	(0.043)	(6.502)	(1.673)
Natural	−0.000	0.000	−0.000	−0.000	−0.000	−0.070	−0.013
Resources	(0.000)	(0.000)	(0.001)	(0.005)	(0.000)	(0.067)	(0.017)
Political	0.022**	−0.004	0.007	0.035	0.014*	1.746*	0.106
Stability	(0.008)	(0.007)	(0.010)	(0.068)	(0.007)	(0.805)	(0.223)
1st-Stage F	14.41***	14.41***	14.41***	14.41***	14.41***	14.66***	13.99***
Countries	114	114	114	114	114	107	114
Observations	1,542	1,542	1,542	1,542	1,542	1,240	1,516

Note: The dependent variables (DV) in Models 11 to 17 are electoral democracy, rule of law, freedom of expression, lower chamber gender quotas, regime corruption, primary school enrollment rates, and female employment-to-population ratios, respectively. All models include country and year dummies. Robust standard errors are reported in brackets. † $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

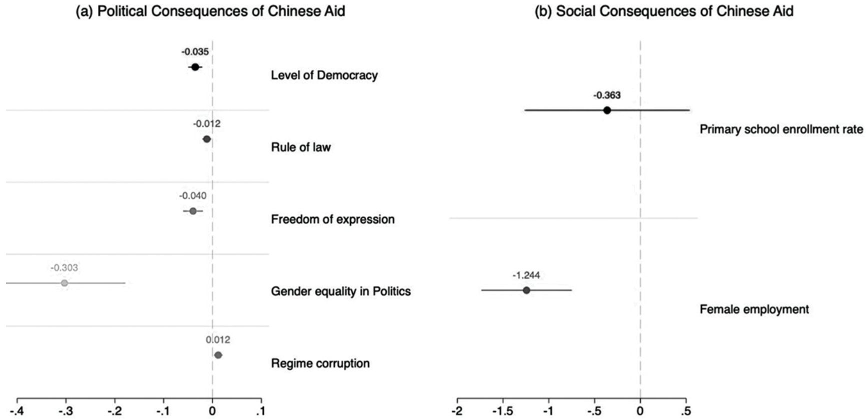

Figure 2.3 Addressing the issue of reversed causality.

Note: Solid circles indicate the point estimates for the effects of Chinese aid on recipient countries' political and social outcomes in the regression models in Table 2.3. A positive point estimate indicates the positive effects of Chinese aid on corresponding political or social outcomes. The horizontal bars indicate 90% confidence levels measuring the uncertainty of the point estimates. A point estimate with a 90% confidence level that overlaps with the dashed vertical line of 0 indicates that the effect of Chinese aid on that political or social outcome is not statistically different from 0.

Source: Created by the authors.

To test our argument, we took advantage of internationally renowned datasets – including the World Development Indicators, the Worldwide Governance Indicators, and the AidData and V-Dem projects – to empirically investigate the perils of Chinese aid. We conducted two-way fixed-effects regression models to analyze the data of 117 developing and underdeveloped countries that received Chinese aid between 2000 and 2017. The findings are robust to doubts about cause and effect and suggest that Chinese aid leads to deteriorating political and social outcomes. Nevertheless, we found no empirical evidence to suggest that Chinese aid has a substantive effect on public health, life expectancy, or death rates.

Although our findings shed light on the emerging literature on Chinese aid, they have some limitations. First, we could not analyze a more extended period due to data limitations, because the AidData project on China's overseas development financing only covers the post-2000 period. Second, this chapter considers all Chinese aid as less (or non-) conditional, but some Chinese aid projects do more closely conform to international norms on ODA. Future studies may fill this gap by differentiating such aid from other official flows (OOF) and investigate its effects on recipient countries. Similarly, we do not analyze the heterogeneous effect of Chinese aid on different recipient countries, where different social and political conditions are in play. For instance, Chinese aid may inhibit democratic development in countries that are already less democratic. It may also increase corruption in countries that are already highly corrupt. Although we have addressed the issue of reverse causality in this chapter, future studies may further explore the impact of specific country circumstances.

It must be highlighted that our empirical analysis also suggests that the political and social effects of Chinese aid are usually the opposite of those of ODA from other donors (see the results in Tables 2.1 and 2.2). Even when other donor countries' strategic objectives are similar to China's objectives, the effects of their aid on recipient countries still differ. It appears that the lack of both transparency and conditionality leads to such divergent political and social outcomes. One potential avenue of investigation is to evaluate the impact of aid on countries that cut formal diplomatic relations with Taiwan and then start receiving aid from China. However, there are challenges. First, the data on Chinese foreign aid to third countries only became publicly available after 2000. Second, Taiwan keeps secret the detailed data on its foreign aid. Advanced statistical models are needed to estimate the scale of Taiwan's foreign aid to its diplomatic partners.

The findings in this chapter provide further insights into the context of China's rise. Although some literature suggests that Chinese aid can boost economic development (Dreher et al., 2021), we demonstrate that such assistance is not a free lunch but, rather, a potential menace. Other donors should also be aware of the potential impact on their own aid when recipient countries also receive assistance from China. ODA donors should try to coordinate their aid disbursements with China in specific countries and encourage Beijing to apply internationally recognized standards.

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3 The promise of growth

A "Difference-in-Differences" analysis of the economic impact of switching diplomatic relations between Taiwan and China

Jinji Chen and Ling-Yu Chen

Introduction

Taiwan's diplomatic isolation began when it lost its right to the "China seat" at the United Nations in 1971 and was replaced by the People's Republic of China (PRC). It lost the recognition of over four dozen countries, including the US, in the years that followed, and has more recently suffered further setbacks. Seven countries cut diplomatic ties in the period from 2016 to 2019: São Tomé and Príncipe, Panama, Dominica, Burkina Faso, El Salvador, the Solomon Islands, and Kiribati. In December 2021, Nicaragua also cut diplomatic ties and switched recognition to Beijing. The rapid rise of China's political and economic strength has been a decisive factor in these losses. But Taiwan is still working hard to participate in international organizations, such as the World Health Organization (WHO). It aims through trade, investment, tourism and technological exchanges to send a message to the world that "Taiwan can help."

This chapter aims to provide the empirical foundation to assess the impact of having diplomatic relations with Taiwan or China and provide results for further analytical examination. It is aided by additional data and observations in the region-based chapters that follow. We apply the Difference-in-Differences (DID) approach, an econometric technique developed by Card and Krueger (Card & Krueger, 1994), to implement data-driven comparative case studies. Under the DID framework, we investigate whether an event that occurred in a certain year – be it a severance of diplomatic ties with Taiwan in exchange for recognition of China, or the launch of Chinese investment programs in the region – leads to better or worse economic performance. The variable, GDP per capita in log form, was sourced from the United Nations (UN) Data for Oceanian countries and the World Bank's World Development Indicators (WDI) for Africa, Latin America and the Caribbean (LAC), and Central and Eastern Europe (CEE). The data are complete until 2019. The global outbreak of COVID-19 in early 2020 had such a global economic impact that data from 2020 are more volatile.

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Methodology

The DID is our econometric model of choice to observe the variation in economic performance between two countries. The DID model, developed by Card and Krueger (1994), was first used to analyze the impact of an increase in the minimum wage in New Jersey in 1980 on the employment of fast-food store employees. It used Pennsylvania as a control group to compare the results before and after 1980. Along with the equations used in the regression model, a simplified example of its application is outlined below followed by an explanation of how it was utilized in this chapter.

This methodology was well received and is now widely used in various fields where researchers wish to evaluate performance before and after an event. There are several reasons for using this measurement methodology: (1) Endogeneity problems can be avoided to a large extent. For instance, some policies or events are generally exogenous relative to economic entities. (2) The traditional method of evaluating the effect of a policy or event is typically to set a dummy variable for the occurrence of an event and then run the regression. In contrast to the simple "before and after" method, in which all change in the outcome is ascribed to the policy, the DID model nets out changes in the outcome in a control group. Thus, the DID model is more scientific because it allows separation of the policy's impact from co-occurring general trends, leading to a more accurate estimation of the effects of the event. (3) The principles and models of DID are straightforward and easy to understand and use. (4) It is a suitable method for our subject countries. In the initial stage of this study, we explored the possibility of using the synthetic control method (SCM), another approach for estimating the impact of a treatment on a single unit. However, counterfactual countries could not be successfully built under the SCM approach.

In comparative terms, other econometric models can be employed to assess the economic impact caused by a policy or regime switching, such as the SCM and Propensity Score Matching (Rosenbaum & Rubin, 1983). However, these two methodologies do not suit this research well. The SCM, an econometric technique developed by Abadie and Gardeazabal (2003) and extended by Abadie et al. (2010), is applied to conduct data-driven comparative case studies. The basic framework of SCM involves constructing an artificial control unit that better resembles the treatment unit in the pre-treatment period than that for any individual unit within the control group. Similarly, Propensity Score Matching needs to use a group of control countries in the same area to emulate the treated countries. These two methodologies require a certain number of the countries in the control group not to interact with China or have any diplomatic ties with China. However, control countries that meet this requirement in some areas are rare, and this limitation makes the systematic application of these two methodologies to our case study in different areas impossible. As such, we adopt the simple DID model to perform our empirical analysis.

The Difference-in-Differences methodology

The main purpose of DID is to deal with the possible impact of unobservable factors on the overall economy. If we simply use the traditional regression model to explore the changes in the overall economy before and after the severance of diplomatic relations, without comparison with a control group, it is impossible to determine whether the overall economy of the country we are observing was changed by other factors. The DID model solves the above-mentioned problems.

To apply the DID method, the two countries – the treated country and the control country – must be independent of each other, such that in the aftermath of the event in question, one will not affect the other. That is to say, the occurrence of the event is an exogenous matter. In such cases the DID method can be used to assess the magnitude of the impact. In addition, the chosen control group must be similar in relevant ways to the experimental country. For example, region, income level, population and culture all fall within our consideration to avoid introducing differences due to other factors.

The DID regression model is as follows:

$$Y_{it} = \alpha + \gamma D_t + \beta X_{it} + \mu_i + \varepsilon_{it} \tag{3.1}$$

where D_t is a dummy variable for the observation period; the year of the event is the interruption year (T_0); the period before the interruption year is denoted as P_0, and after the interruption year denoted as P_1; and after the interruption year (P_1) is denoted $D_t = 1$. Before the interruption year (P_0) is denoted $D_t = 0$. X_{it} is for the countries in our modeling pool. The treated country has dummy variable $X_{it} = 1$, and the control country is assigned the dummy $X_{it} = 0$. Herein μ_i is an unobservable country characteristic. Therefore, before breaking off diplomatic relations (P_0), the treated country and the control country do not differ, so $X_{it} = 0$. After breaking off diplomatic relations (P_1), the treated country is denoted $X_{it} = 1$, while the control country keeps the designation $X_{it} = 0$. Since equation (1) can be differenced when panel data are available (that is, the post-period minus the pre-period), μ_i can be eliminated and the following equation is obtained:

$$\Delta Y_i = \gamma + \beta X_{ip1} + \Delta\varepsilon_i \tag{3.2}$$

where ΔY_i is the DID result, and β, namely the degree of economic impact on the country after the severance of diplomatic relations, which we get after differencing ΔY_i over the countries, is the DID estimate that we want to observe.

In addition, we also illustrate the DID trend, which adopts each DID value (ΔY_i) per year, and draw the curve to realize the changes in the DID results in our empirical period.

DID example

When observing the impact in 2019 of a certain economic event or change in policy that occurred in 2013 in country A, now termed the treated country, the year 2013 is hereafter referred to as the "interruption year."

To conduct such an examination, we first select a "control country," referred to as country B, which ideally is located in the same region and has a similar culture, language, education level and political and economic policies as country A. We then set an empirical period to observe, which in this example is from 2008 to 2019, in other words, beginning well before the interruption year.

Figure 3.1 illustrates the trend in GDP per capita of both countries in the selected period from 2008 to 2019. The difference in GDP per capita between the two countries was US$100 in 2008, as shown in Table 3.1. This $100 gap remained fixed until the interruption year, when the treated country adopted the economic policy in question and started feeling its impact. By 2019, the difference in GDP per capita between country A and B has widened to $700. The dotted line in Figure 3.1 is the *assumed parallel* – the expected GDP per capita trend for country A if it had not adopted the policy, keeping the fixed $100 difference to country B. A DID calculation is then carried out by comparing the average change over time in the outcome variable for the treated country to the average change over time for the control

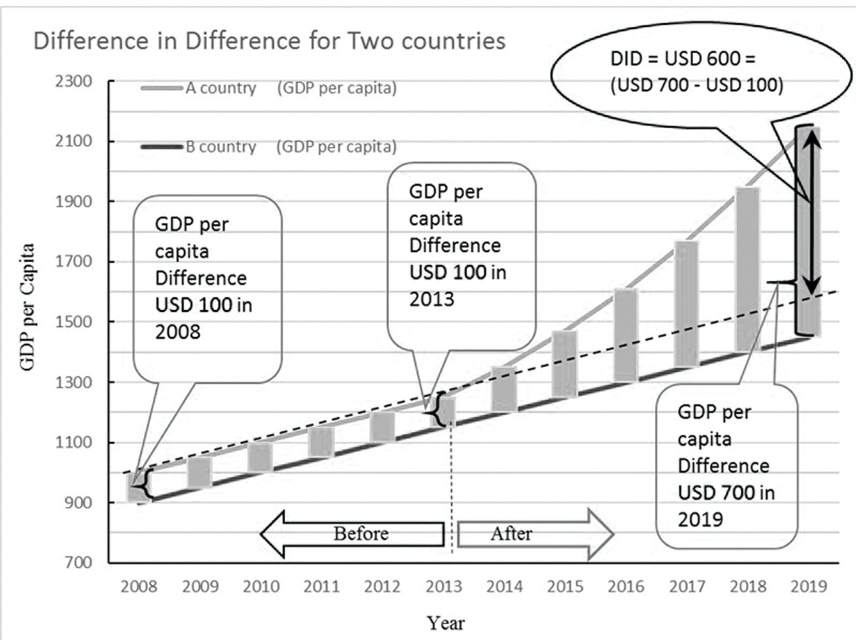

Figure 3.1 Difference-in-Differences method.

Table 3.1 Difference-in-Differences method

Year	*2013*	*2019*
Country A (GDP per capita in USD)	1,250	2,150
Country B (GDP per capita in USD)	1,150	1,450
Difference	100	700
Difference-in-Differences = (700–100) = 600		

country – subtracting the differences between the two countries before and after the implementation of the new policy: \$700 − \$100. Therefore, the DID result is \$600, which illustrates the impact of the change on country A and shows that its economic performance was better than that of the control country after the interruption year.

DID application in this chapter

In this chapter, we aim to apply the DID method to estimate the effect of an event, for example the establishment or severance of relations with Taiwan or China, on the economic performance of our treated countries. Our variable, GDP per capita in log form, was sourced from the UN Data for the Oceanian countries and the WDI for the three remaining regions.

As a chief objective of this chapter is to supply empirical results for the regional-based discussions, our selection of the treated countries is mainly informed by the contributors to those chapters. Two key considerations are relevant: whether these countries have switched their diplomatic relations from Taipei to Beijing or vice versa, or in the case of no formal diplomatic shift, whether bilateral relations have been strengthened; and the scale of trade and investment relations these countries maintain with Taiwan and China. The control countries, on the other hand, are chosen based on region, GDP per capita, income level, size of population and cultural affinity. We made our best efforts to choose a control country in the same region, if available.

The interruption years for different treated countries were either the years when they broke diplomatic ties with Taiwan in favor of China, or vice versa (also referred to as “breaking year” in these cases), or the date when China launched major investment drives in the region.

The year 2006 was selected for the nine African countries examined, the year of the third Forum on China-Africa Cooperation (FOCAC). The importance of this event is reflected by a sharp increase in trade and investment between China and African countries in the years that followed (see Chapter 5). FOCAC was first held in 2000 and 2003 as ministerial meetings, but the 2006 event was held in Beijing as a full summit, with 41 heads of state from Africa attending. China’s first policy white paper on Africa was presented in the same year, along with specific financial commitments. They included \$5 billion in financing, a pledge to double aid by 2009, the establishment of a China-Africa Development Fund with \$5 billion in capital, and expanded infrastructure commitments. The forum also set the pattern for the subsequent triannual forums.

The year 2012 was chosen as the interruption year for the 16 CEE countries examined because it was the year the 16+1 framework was launched under the title Cooperation between China and Central and Eastern European Countries. China's goal was to introduce the Belt and Road Initiative (BRI) into the region through the framework (see Chapter 7). China's drive for investment in the CEE countries can be seen as part of an effort to open up the European market and connect it to China through new links across Central Asia (see Chapter 7).

The year 2013 was picked for the 33 Latin American countries examined, the year when China launched the BRI along with its branches in Latin America. Since then, China has been increasingly able to use economic statecraft, including infrastructure investment, to pursue its strategic goals (see Chapter 4). Some studies suggest that the BRI could help Chinese partners achieve stronger economic performance. Therefore, we examine whether GDP in the treated countries slowed down after 2013 compared to that of a long-term Chinese partner (also see Chapter 4).

The year 2006 was selected for the ten Oceanian countries, the year of the first China-Pacific Island Countries Economic Development and Cooperation Forum (hereafter referred to as "China Pacific Forum") and the visit of the then-Chinese premier, Wen Jiabao. China significantly increased its economic presence and aid engagement in the Pacific after 2006 (see Chapter 6).

The interruption and breaking years divide the empirical period into the pre-breaking and post-breaking periods. By comparing the GDP per capita differences between two countries in both periods, a DID value is obtained. In addition, a DID trend graph is produced for treated countries that warrants further discussion. The DID trend is produced by treating each year in the empirical period as an interruption to yield multiple DID results, before plotting these resulting values into a curve that can better explain the economic development before and after the interruption. That is, it dynamically maps out the GDP per capita differences between the treated and the control countries throughout the observed period.

Empirical results

The four regions examined by this empirical study are Africa, CEE, LAC and Oceania. A comprehensive result of the DID analyses is provided in the Appendix while we focus on selected countries for detailed DID regression and trend analysis. For Africa, two out of the nine treated countries were chosen: Malawi and South Africa. In the CEE, two out of the 16 were selected: the Czech Republic and Hungary. In LAC, five out of 33: Costa Rica, Dominica, Grenada, Guatemala and Saint Lucia. In Oceania, two out of ten: Tonga and Tuvalu. Most of these countries either switched diplomatic relations or are diplomatic or trade partners of Taiwan.

For each treated country discussed, two graphs are presented: a GDP per capita trend of both the treated and the control countries on the left, and one for the DID trend on the right. The GDP trend graph outlines the paths of economic performance measured by (the log of) GDP per capita over the entire study period, with the solid line representing the GDP per capita of the treated country, and the dashed line denoting its counterpart drawn from the control country. A vertical dotted line denotes the year of the interruption.

The DID trend graph, on the other hand, shows the DID result values plotted on a curve for each year of the empirical period. That is to say, the DID trend graph dynamically maps out the GDP per capita differences between the treated and the control countries throughout the observed period of time. When the DID trend goes up, the economic growth rate of the treated country is higher than that of the control, indicating stronger economic growth than the other country. When the DID trend goes down, the economic growth rate of the treated country is slower than that of the control.

Africa

A total of nine African countries – Burkina Faso, the Central African Republic, Chad, Eswatini, Malawi, São Tomé and Príncipe, Senegal, South Africa, and the Gambia – were selected to undergo DID analysis (see **Appendix A**). Control countries were assigned to treated countries on the basis of similarities in GDP per capita and other relevant factors noted above. The interruption year of 2006 was applied – the year of the third FOCAC – while additional breaking years were employed for countries that had broken off ties with Taiwan: 1998 for South Africa, 2008 for Malawi, and 2016 for São Tomé and Príncipe.

The default empirical period for African countries is from 1998 to 2019. However, the WDI database lacks data for São Tomé and Príncipe before 2001; thus, the empirical period 2001 to 2019 was selected for it. South Africa broke ties with Taiwan in 1998, but as 1990 was the year that saw the release of Nelson Mandela, which was swiftly followed by the end of apartheid in 1991 and the subsequent revocation of sanctions, the period of 1990 to 2019 was adopted.

In the nine observed countries presented in **Appendix A**, Burkina Faso, São Tomé and Príncipe, Senegal, South Africa and the Gambia experienced economic downturns that were statistically significant after the third FOCAC took place in 2006. On the other hand, Chad and Malawi are observed to have experienced economic growth after 2006. The Central Africa Republic and Eswatini did not produce results that are statistically significant.

In this treated pool, two countries that switched diplomatic allegiance between Taiwan and China – Malawi and South Africa – yielded statistically significant results, thus warranting additional DID trend analysis and further discussion. A table showing the DID trends for African countries is included in **Appendix B**.

Malawi

Figure 3.2 shows the treated country, Malawi, alongside its control country, Niger, during the period 1998 to 2019. The DID illustrates the (log of) GDP per capita trend and the breaking year, 2008, when Malawi cut diplomatic ties with Taiwan. The right graph illustrates the DID trend from 1998 to 2019 and displays all positive

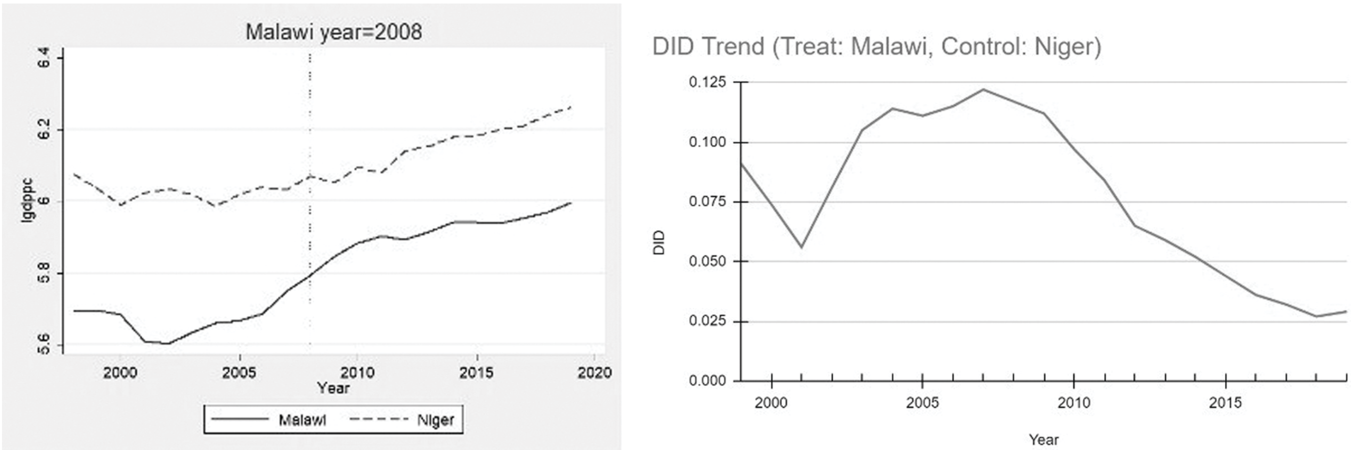

Figure 3.2 Malawi versus Niger.

DID values in this period. Compared with the control country, the DID trend for GDP per capita in Malawi went down from 1999 to 2001.

The DID trend from 2002 to 2007 increased and was statistically significant, meaning that Malawi's economic growth rate was greater than Niger's in this period. By contrast, in the period from 2008 to 2014, the DID trend decreased and was statistically significant throughout this interval, suggesting that the magnitude of its growth rate was less than that of Niger, and the economic performance of Malawi began to slow during the six years following the establishment of ties with China. From 2015 to 2019, DID results are statistically insignificant; therefore, we cannot say whether Malawi had a better or worse economic performance in this period.

South Africa

Figure 3.3 compares the treated country, South Africa, and its control country, Botswana. The breaking year on the left graph is 1998, when South Africa cut ties with Taiwan, and the observation period is 1990 to 2019. The right graph exhibits the DID trend, showing negative and statistically significant DID values throughout the empirical period. The DID trend also starts falling from 2004, showing that South Africa's economy did not improve compared to Botswana's. Its economy remained stagnant after 2004.

Central Eastern and Europe (CEE)

A total of 16 CEE countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia – were selected to undergo DID analysis (see **Appendix C DID results of Central and Eastern Europe**). Turkey was selected as the control country for the area due to its geographic proximity, its candidacy for European Union (EU) membership and its exclusion from China's 16+1 initiative, making it an ideal point of reference when exploring the economic impact of the initiative on CEE countries.

The interruption year 2012 was applied, as we wanted to examine the economic impact of the initiative against initial hope in the CEE that the 16+1 format would boost Chinese trade and investment and stimulate growth (see Chapter 7). The empirical period for the region is 1999 to 2019.

In the 16 observed countries displayed in **Appendix C**, 11 presented negative DID result values, while five showed positive values. More significantly, Croatia, the Czech Republic, Hungary, Montenegro and Slovenia all presented statistically significant, and negative, DID result values, showing that they did not perform better than Turkey after the launch of the 2012 initiative.

In the countries that yielded statistically significant results, the Czech Republic and Hungary were chosen to undergo additional DID trend analysis and further discussion. A table showing the DID trend for CEE countries is included in **Appendix D**.

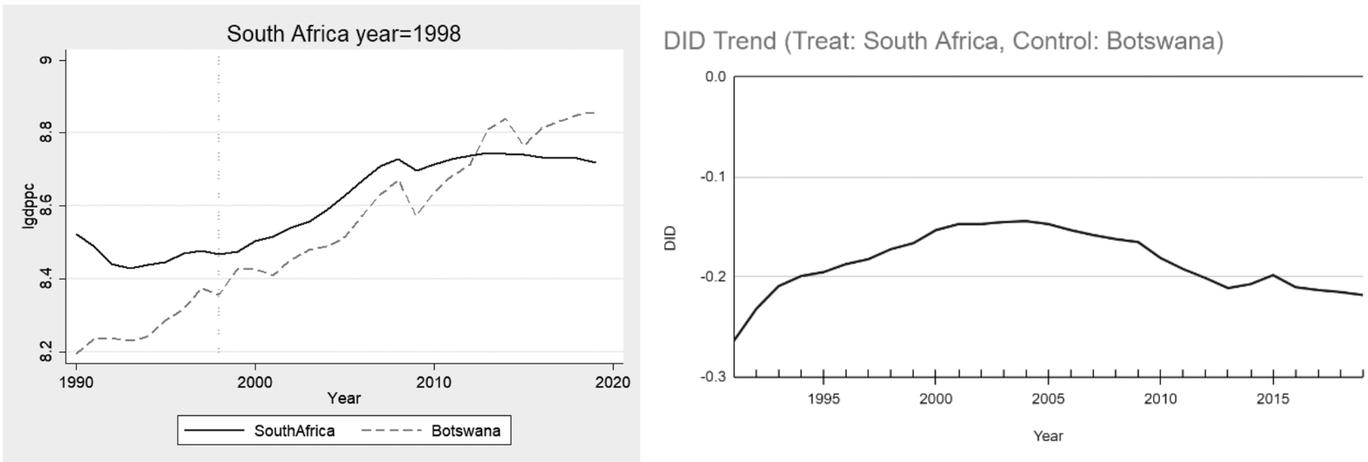

Figure 3.3 South Africa versus Botswana.

The Czech Republic

Figure 3.4 shows the Czech Republic as the treated country and Turkey as the control. The left graph is the (log of) GDP per capita trend with an observation period from 1999 to 2019, with 2012 as the interruption year. The right graph shows the DID result trend from 2000 to 2019, with negative DID result values presenting throughout the entire empirical period within two intervals: 2004 to 2006, and 2008 to 2018. The DID value began to drop from 2001 and stopped at 2012, showing that the magnitude of economic growth was less than that of Turkey during this period. From 2013 to 2018, the DID trend rose but still presented negative and significant DID results, meaning that while the degree of Czech economic growth was stronger than Turkey's in the period, it still experienced a slump after 2012.

Hungary

Figure 3.5 shows Hungary as the treated country and Turkey as the control. The empirical period is 1999 to 2019 and the interruption year is 2012.

On the right, Hungary's DID trend is shown to have decreased after 2001, reaching its lowest point in 2011, denoting economic shrinkage in the period. However, the DID trend experiences an uptick from 2012 to 2019, illustrating stronger growth than Turkey.

Latin America and the Caribbean

A total of 33 countries in the LAC were tested (see **Appendix E DID Results of Latin American and the Caribbean**), with the default empirical period set from 2000 through 2019. In 2000, Taiwan welcomed its first transition of power after Chen Shui-bian of the Democratic Progressive Party (DPP) was elected president, ending over half a century of rule by the Chinese Nationalist Party (KMT) and opening the door to a new diplomatic onslaught from China. For countries that switched ties to China recently, such as Panama (2017) or El Salvador (2018), not enough time has passed for an assessment on economic development to be conducted. Therefore, they are still treated in the model as Taiwanese partners, and alternative end years for the empirical period are used.

The interruption years for the individual countries are either the year of their diplomatic switch, or 2013, the year when the BRI was extended to the LAC. Control countries were chosen on the basis of two criteria: Similarity in the level of economic development (in this case GDP per capita), and consistency in their recognition of Taiwan or China. For further discussion of these selections, and how the empirical DID results applied to the testing of the "Switching Helps" and "BRI Attracts" hypotheses, please refer to Chapter 4: "The Political Economy of Diplomatic Competition: Taiwan and China in Latin America and the Caribbean."

In the following section, Costa Rica, Dominica, Grenada, Guatemala and Saint Lucia receive some further DID regression and trend analysis. A table showing the DID trend for LAC countries is included in **Appendix F**.

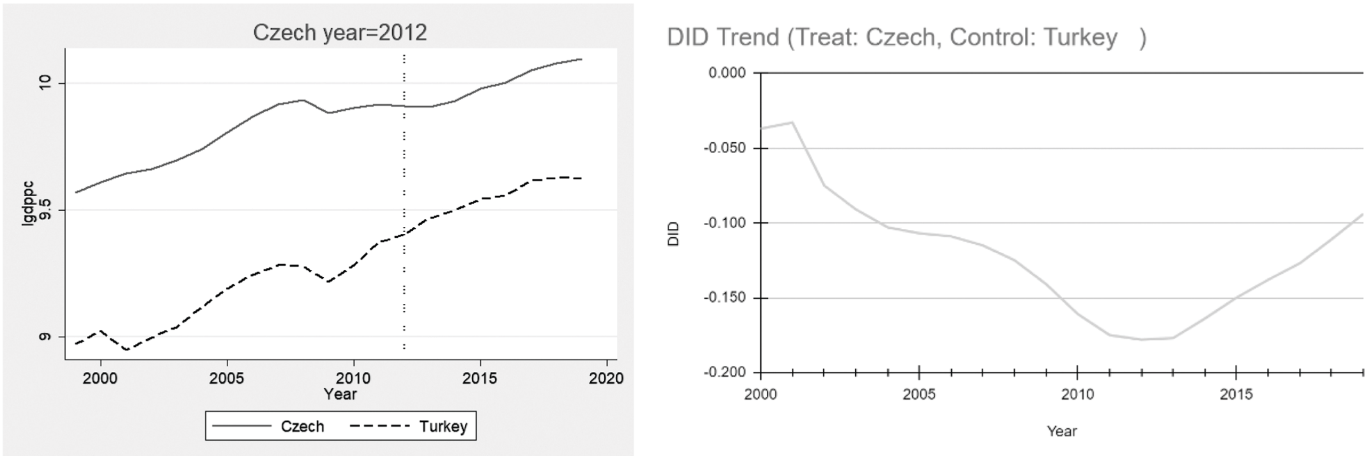

Figure 3.4 The Czech Republic versus Turkey.

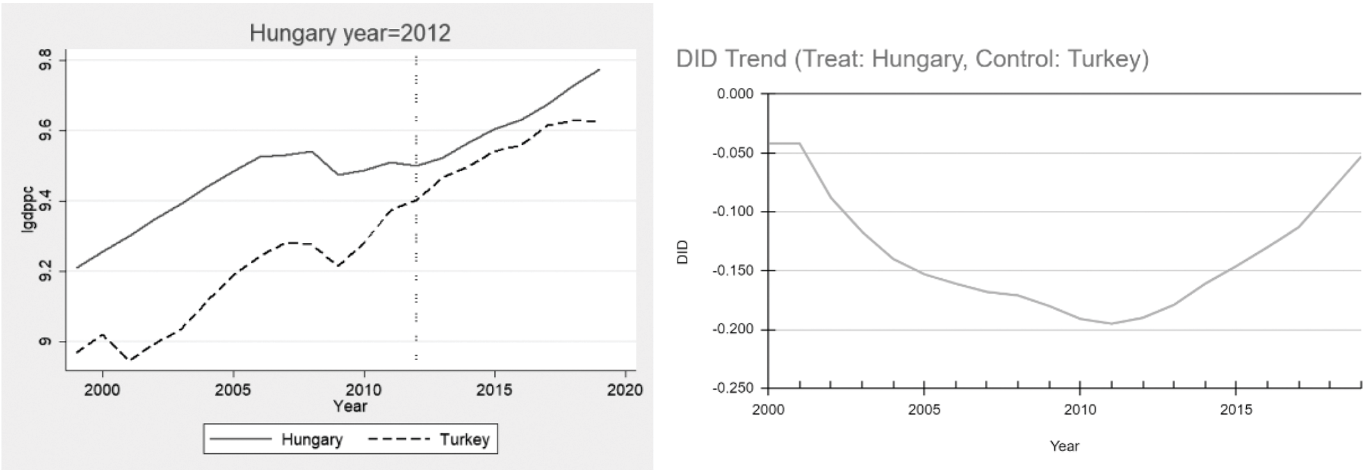

Figure 3.5 Hungary versus Turkey.

Costa Rica

Figure 3.6 illustrates Costa Rica as the treated country and Panama as the control country. Costa Rica cut ties with Taiwan after 63 years in 2007, while Panama remained Taiwan's diplomatic partner until a switch to China in 2017. The empirical period is from 2000 to 2017. The graph on the upper left shows the (log of) GDP per capita trends of both countries with the break year of 2007, and the one at the upper right shows the (log of) GDP per capita trends of both, with the interruption year of 2013.

The DID trend graph at the bottom applies to both analyses using the break year 2007 and the interruption year 2013. It shows a downward sloping curve from 2001 to 2012, when it reaches the lowest point with a negative DID value. The results are statistically significant, showing that Costa Rica's economic growth rate is observed to be weaker than Panama's during that period.

The DID trend continues its decline after 2007, showing that the gap between Costa Rica and Panama keeps on shrinking. The negative DID value is statistically significant within the 2007 to 2012 interval, indicating that Costa Rica's economic performance was worse after cutting diplomatic ties with Taiwan.

After 2013, the DID trend appears to increase from the lowest point, and the results are statistically significant during the period from 2013 to 2017. The DID trend shows that Costa Rica's economic growth was a little stronger than that of the control country after the adoption of the BRI.

Dominica

Dominica, which broke away from Taiwan in 2004, is compared with the control country, the Dominican Republic, in Figure 3.7 with an assessed interval from 2000 to 2018. In line with the same consideration, the Dominican Republic was chosen as it remained a Taiwanese diplomatic partner until it switched to China in 2018. We find that although the GDP per capita of Dominica is greater than that of the Dominican Republic, its economic growth was weaker, with a statistically significant, negative DID value for the empirical period. According to the DID trend, the value began to decrease mildly in 2003, and there was a decline between 2008 and 2017, when it reached its lowest value. From these results we can conclude that after Dominica switched its diplomatic recognition to China in 2004, its economic performance worsened. Moreover, Dominica did not enjoy positive economic performance after China extended its BRI to the region in 2013.

Grenada

Figure 3.8 presents the treated country, Grenada, which broke away from Taiwan in 2005, and its control, Panama. The upper graphs show the (log of) GDP per capita trend of Grenada and Panama with both the break year of 2005 and interruption year of 2013. After 2008, Grenada had a lower GDP per capita than Panama. Again,

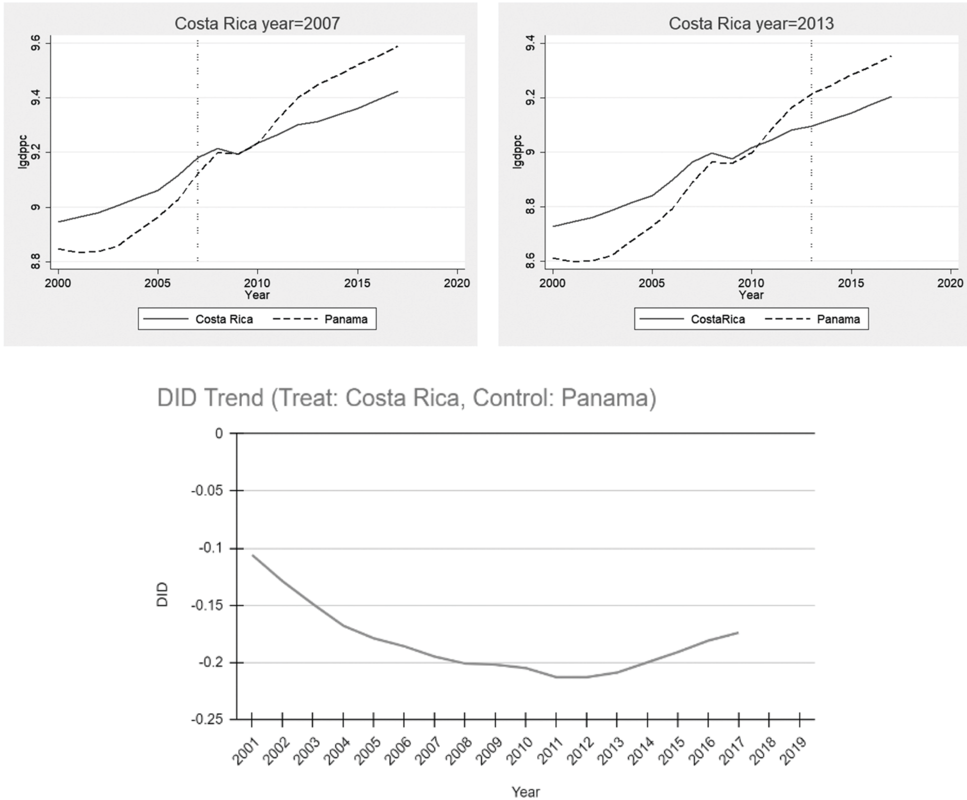

Figure 3.6 Costa Rica versus Panama.

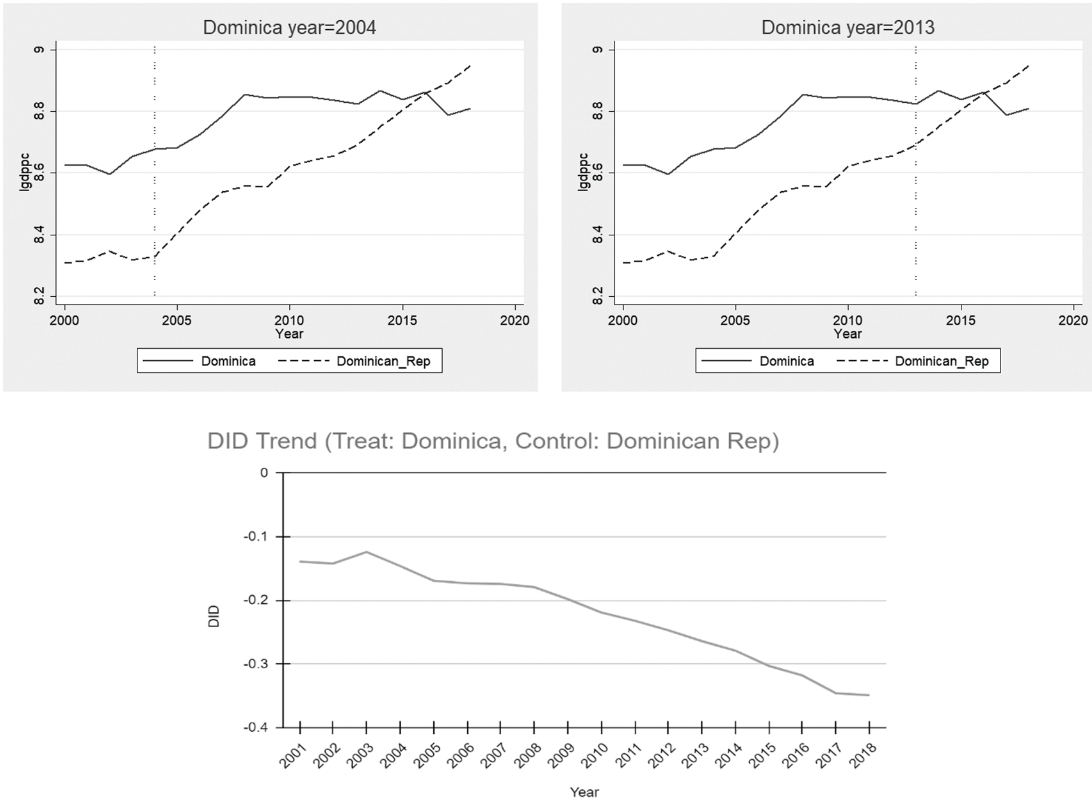

Figure 3.7 Dominica versus the Dominican Republic.

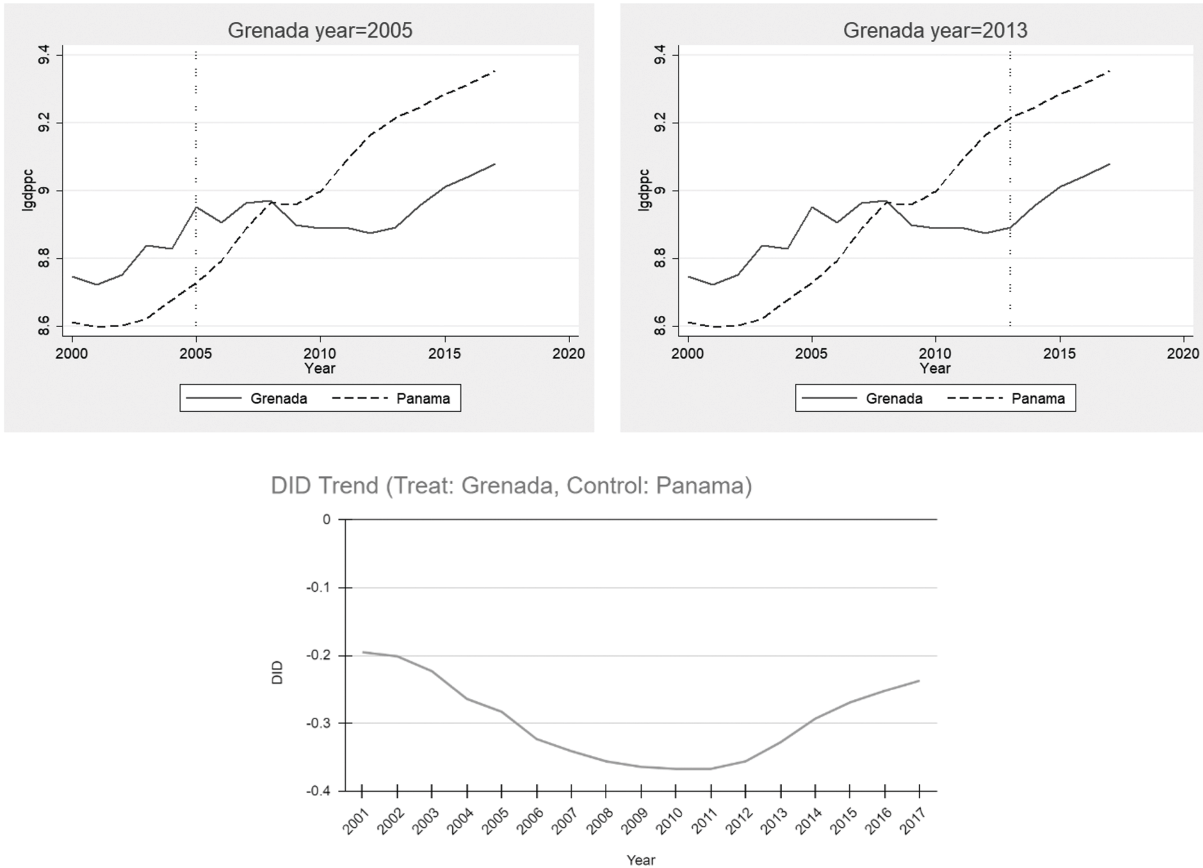

Figure 3.8 Grenada versus Panama.

Panama was chosen as it remained Taiwan's diplomatic partner until it switched to China in 2017.

According to the DID result, we see a statistically significant and negative DID value during the period from 2001 to 2017, meaning that Grenada's economy did not perform well in this period. The bottom graph of the DID trend shows a downward curve from 2000 to 2010, which turns upwards from 2011 to 2016, meaning that while Grenada's economy was recovering after 2011, it was still worse than Panama's, as is apparent in the negative DID value. Therefore, we find that although economic growth was slightly better than Panama's after the launch of the BRI, Grenada's economy did not do well. The DID trend also indicates that Grenada's economic performance suffered after it cut ties with Taiwan in 2005.

Guatemala

Figure 3.9 shows Guatemala as the treated country and Suriname as the control. Suriname was chosen as it is a long-term diplomatic partner of China, whereas Guatemala has long recognized Taiwan. The assessed period is from 2000 to 2018. The DID trend rises from its lowest value in 2001 but remains negative until 2013. The result is statistically significant only in the period 2001 to 2009, with a negative DID value that shows Guatemala's economy struggling. After 2014, the DID value turns positive but is statistically insignificant, so we cannot verify that Guatemala's economy outperformed that of Suriname.

Saint Lucia

The (log of) GDP per capita trend of Saint Lucia compared with the control country, Guyana, is shown in Figure 3.10. One interruption year is 2007, when Saint Lucia reestablished ties with Taiwan in 2007, while the other is 2013, when the BRI was adopted in the region. The observed period is from 2000 to 2019.

The DID trend displays a negative value and is statistically significant within the entire period, which can be interpreted as showing that Saint Lucia's economic performance lags behind that of Guyana. After establishing diplomatic ties with Taiwan in 2007, Saint Lucia presented a negative and statistically significant DID value, showing that it did not enjoy economic improvement after switching to Taiwan. In general, the DID trend value began a more pronounced decline after 2003 and a return to growth in 2013. During the period of 2003 to 2013, Saint Lucia's economy did not experience stronger growth than the control country.

Oceania

A total of ten Oceanic countries – Fiji, the Marshall Islands, the Federated States of Micronesia (FSM), Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu – were selected to undergo DID analysis (see **Appendix G**).

As island nations in this region are generally small economies that are vulnerable to exogenous shocks, a longer empirical period was adopted to better illustrate

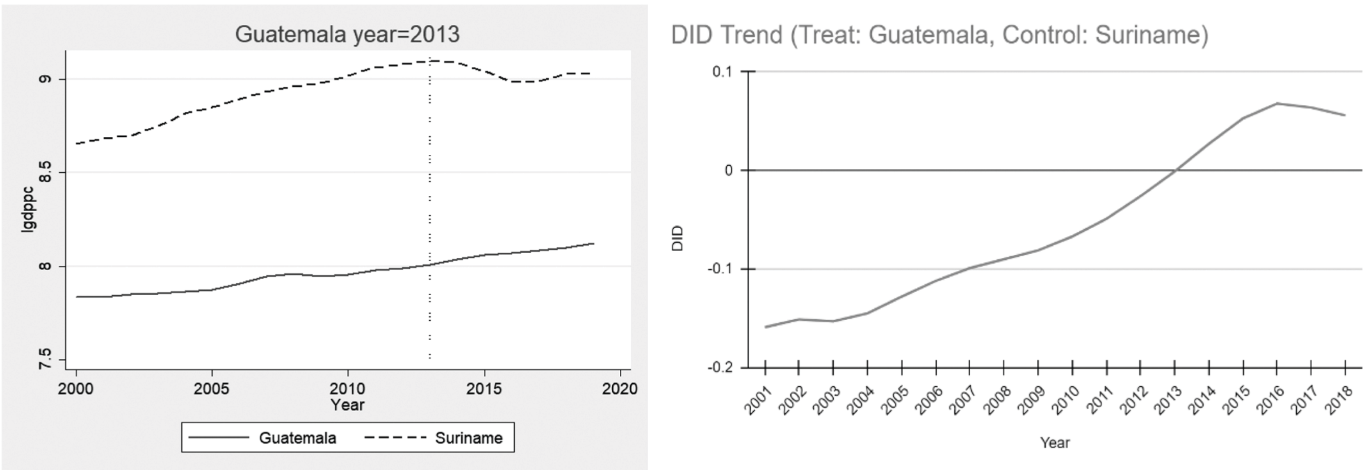

Figure 3.9 Guatemala versus Suriname.

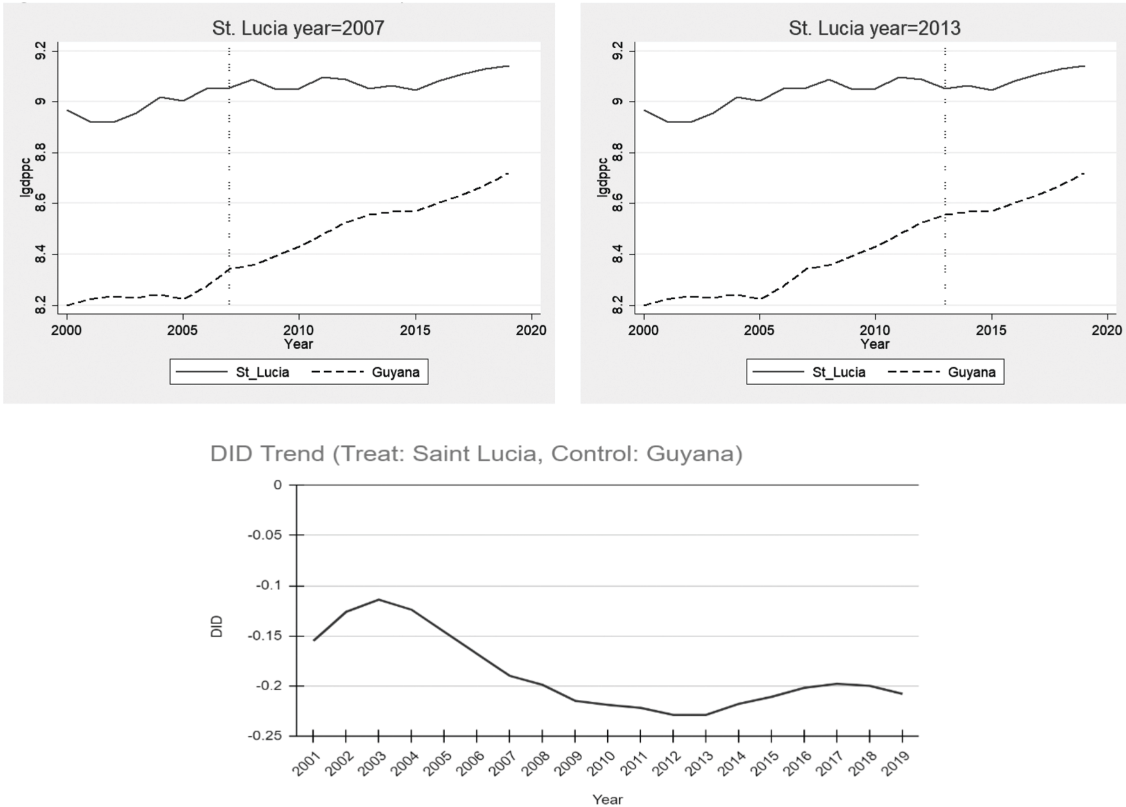

Figure 3.10 Saint Lucia versus Guyana.

their economic development. The empirical period is therefore set from 1970, when decolonialization started in the region, to 2019.

The control countries were selected based on their similarities to individual treated countries in three criteria: the level of GDP per capita, size of population and the country's key economic sectors. The year 1998 was selected as the breaking year for the Marshall Islands and Tonga, the year both countries cut ties with Taiwan. For the remaining eight states, the interruption year was set as 2006, when China initiated the first China Pacific Forum.

In the six Oceanic countries that yielded statistically significant results, three – the FSM, Palau and the Solomon Islands – presented negative DID values. That is, their economies did not perform well relative to their control countries after 2006. Tonga also presented a negative and statistically significant DID value, meaning that it did not perform well economically compared to its control country after cutting ties with Taiwan in 1998. Samoa and Tuvalu, on the other hand, presented positive and statistically significant DID result values, illustrating a better economic performance compared to their control countries after 2006.

In this chapter, we focus on Tuvalu and Tonga for our DID regression and trend analysis. An account of other countries will be provided in Chapter 6. A table showing the DID trend for Oceanic countries is included in **Appendix H**.

Tonga

Figure 3.11 illustrates the DID result for GDP per capita of the treated country, Tonga, and the control, Tuvalu, for the period 1970 to 2019. Tonga cut ties with Taiwan to establish diplomatic relations with China in 1998, while Tuvalu has been a long-term partner of Taiwan. In the right graph of Figure 3.11, Tonga's DID trend is shown to have decreased during the years 1971 to 1987, and the DID result is statistically significant. That is, Tonga's economic growth compared to Tuvalu shrank significantly during this period. From 1988 to 2002, the DID trend for Tonga was still gradually decreasing, but it was not statistically significant and so we cannot confidently conclude how the economy was performing during this period. The DID trend fluctuated slightly from 2002 to 2019, and we can see that Tonga's comparative growth was largely stagnant during this period.

Tuvalu

Tuvalu's (log of) GDP per capita trend appears in the left graph of Figure 3.12, and the DID trend in the right. The treated country is Tuvalu, a long-term Taiwanese diplomatic partner in the Oceanic region, with the control country chosen as the FSM, which has long recognized Beijing. Both Micronesian countries rely heavily on fishing license fees and fisheries. The examined period is 1970 to 2019. According to the DID trend, the results are statistically insignificant in the decade from 1978 to 1988, and during this period we cannot assert whether or not Tuvalu's economy performed better. In 1989 it gives us a statistically significant empirical

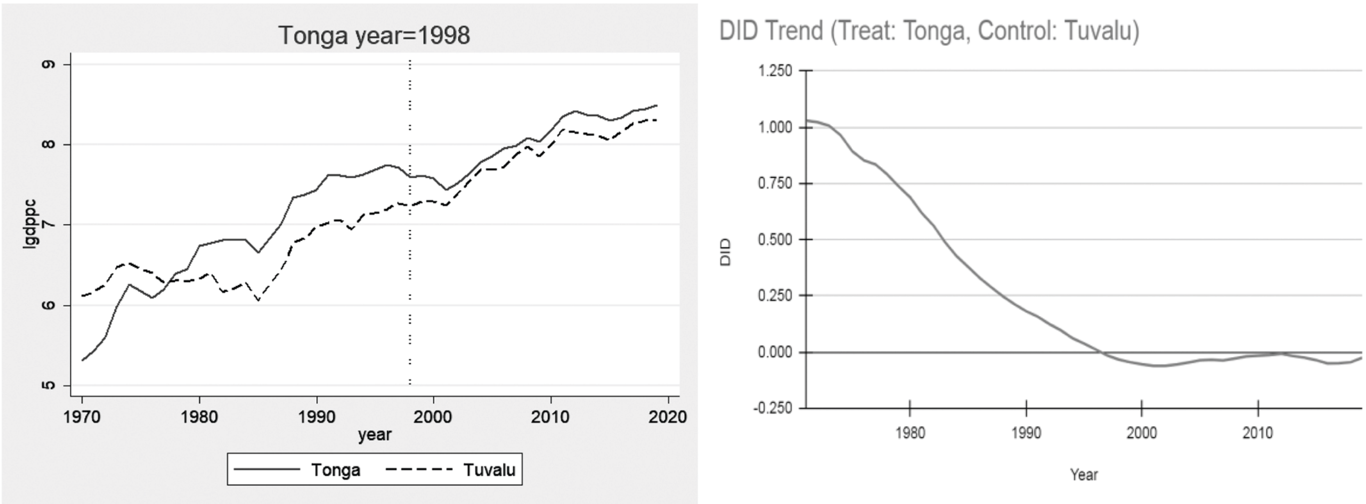

Figure 3.11 Tonga versus Tuvalu.

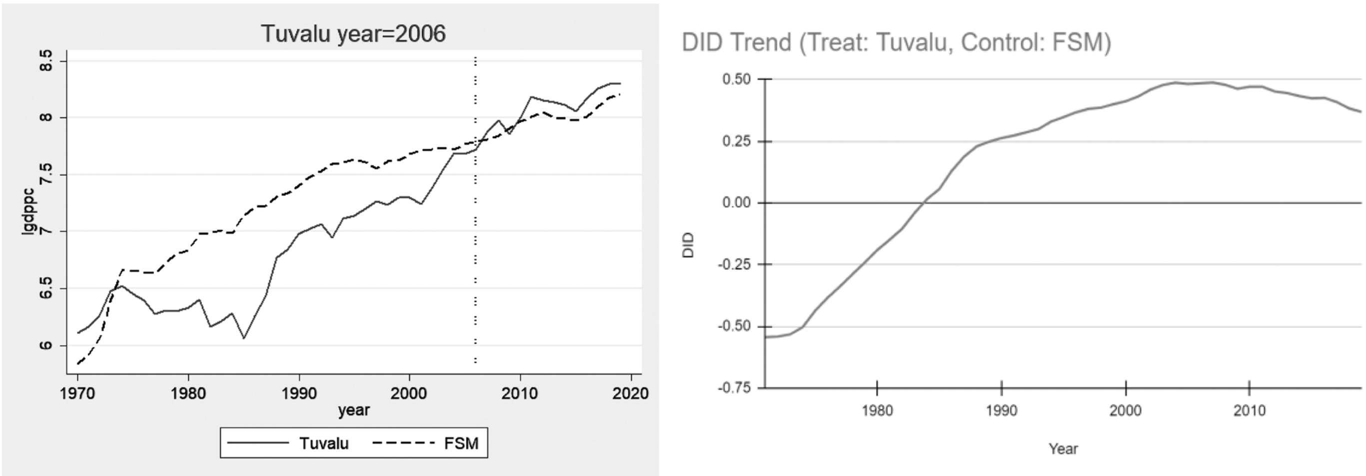

Figure 3.12 Tuvalu versus Federated States of Micronesia.

result and positive DID value. This indicates that Tuvalu's economy grew faster than the FSM.

According to the right graph, the DID trend reaches its highest point in 2007 with a positive DID value. In the period from 2004 to 2007, the DID trend does not fluctuate much and presents a flat curve with positive DID values for four years. This indicates that the economy performed at a high level. After 2007, the DID values began to ease off. Therefore, we find that Tuvalu enjoyed positive economic performance before 2006 and fluctuated somewhat afterward.

Conclusion

Our empirical results show that countries switching diplomatic recognition from Taiwan to China do not necessarily enjoy a significant boost to their economic performance. The DID results indicate that of the nine African countries observed, five – Burkina Faso, São Tomé and Príncipe, Senegal, South Africa and the Gambia – experienced economic downturns after the third FOCAC took place in 2006. The meeting was followed by a sharp increase in Chinese trade and investment on the continent (see Chapter 5). On the other hand, Chad and Malawi are observed to have experienced economic growth after 2006. However, Malawi's economic performance began to slow from 2008 to 2014 compared to the control country, Niger. Similarly, South Africa's economy did not improve after it cut ties with Taiwan in 1998 relative to its control country, Botswana. It stagnated further after 2004.

The empirical results also show that the economy of Eswatini, Taiwan's only remaining partner in the African region, began to slow after 2015. Taiwan's main projects in the country involve agriculture, animal husbandry and medical technology. It sent a technical training team to Eswatini and selected trainees to go to Taiwan for further instruction. Internet technology remains a high priority across the continent and further high-tech assistance for Eswatini can be expected to boost economic performance.

Of the 16 CEE countries tested, five – Croatia, the Czech Republic, Hungary, Montenegro and Slovenia – did not perform better economically than their control country, Turkey, after the launch of the 16+1 initiative. This contributed to some of the frustration heard within the CEE that the format had not delivered on its promise of growth (see Chapter 7).

Of the 33 LAC countries that were considered, 21 were aligned with Beijing and 13 of these presented negative DID values, including statistically significant and insignificant ones. The results demonstrate that these countries did not see stronger economic growth after 2013, the year when China launched the BRI. This casts doubt on China's assertions that the BRI brings great economic benefits to its partner countries. It was also observed that Costa Rica, Dominica and Grenada did not perform better than their control countries after switching recognition to China.

Of the ten Oceanic countries examined, six – Fiji, the Federated States of Micronesia, Palau, Papua New Guinea, Solomon Islands and Vanuatu – did not see a relative economic improvement compared with their control countries after

2006 when the first China Pacific Forum took place. We also see that Tonga, which switched recognition to China in 1998, still has comparatively weak economic growth, while the Taiwanese partner, Tuvalu, has enjoyed positive economic growth relative to its control country.

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4 The impact of diplomatic ties on economic development

Taiwan and China in Latin America and the Caribbean

Yen-Pin Su

Introduction

Taiwan's diplomacy is largely shaped by its contest with China for international recognition (Hsiang, 2021). In 1969, Taiwan had formal relations with 70 countries, the most in its history, while China was recognized by 47. From 1970 to 2021, Taiwan established diplomatic ties with 32 countries, but 80 countries broke away and turned to China.

Over the past two decades, China has used ever more instruments of economic statecraft to pursue its strategic goals (Alves, 2013; Teng, 2021, pp. 74–75). Recent studies suggest that countries which have abandoned Taiwan were attracted by Chinese promises related to the Belt and Road Initiative (BRI) (Shattuck, 2020), which was adopted in 2013. Anticipated economic gains from China are a crucial motivation for a small state to open diplomatic relations. As one interviewee for this study explains, "Building ties with China is the default mode for Latin American countries because these countries expect that they can get much more aid and investment from China than from Taiwan" (Interviewee A1, October 30, 2021).

This chapter focuses on two research questions surrounding the economic impact of Taiwan–China diplomatic competition. First, did countries that switched ties indeed become better off? Second, given that the BRI offers the prospect of more economic interaction with China, do Taiwan-aligned countries that were economically worse off after 2013 tend to switch relations to China?

To address these questions, this chapter examines Taiwan-aligned countries in the Latin America and the Caribbean (LAC) region, where most of Taiwan's remaining diplomatic partners are located. In the next section, I offer a discussion on my testable hypotheses with the help of the difference-in-differences (DID) analysis. Third, I present four case studies in the LAC region to analyze the economic impact of Taiwanese and Chinese involvement. Finally, I assess the findings and present a conclusion.

International political economy and the switching of diplomatic relations

Fifteen countries in the LAC region broke ties with Taiwan and recognized China between 1971 – when Beijing assumed the China seat at the UN – and 2000. Only

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one country, Nicaragua, moved in the opposite direction and recognized Taiwan in the same period. During the Chen Shui-bian administration (2000–2008), Taiwan rebuilt diplomatic ties with Saint Lucia in 2007 but lost relations with Dominica (2004), Grenada (2005), and Costa Rica (2007).

While there was no dramatic change in Taiwan's diplomatic relations in the LAC region under the "diplomatic truce" policy of the Ma Ying-jeou administration (2008–2016), China resumed fierce competition with Taiwan after President Tsai Ing-wen was elected in 2016. From 2016 to 2023, Taiwan's partners in the region dropped from 12 to seven. The countries that switched to China were Panama (2017), the Dominican Republic (2018), El Salvador (2018), Nicaragua (2021), and Honduras (2023). As of January 2024, Taiwan maintained official diplomatic relations with 12 countries, seven of which were in the LAC region: Belize, Guatemala, Haiti, Paraguay, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

China's diplomatic success in the region is largely due to its growing economic presence. Zhang and Prazeres (2021) indicate that China's trade with the LAC grew 26-fold in the two decades after 2000. Moreover, since 2005, LAC countries have borrowed US$138 billion from the Export-Import Bank (Exim) of China and the China Development Bank (Moreno, 2022). The loans are often with conditions, such as requiring the borrowers to use oil for debt repayment, or guaranteeing that Chinese firms will gain market share in strategic sectors such as energy and telecommunications (Kaplan, 2021).

Anticipated gains are clearly a key in the decision-making process, but do ties with Beijing yield fruit? Chen's (2018) analysis of nine countries that cut relations with Taiwan from 2000 to 2013 demonstrates that they received immediate and significant economic benefits from China. Long and Urdinez (2021) argue that Taiwan-aligned countries must pay a "Taiwan cost" through the absence of aid, investment, and credit from China. Estimating the opportunity cost of not recognizing China, Long and Urdinez's (2021, 9–11) econometric analyses suggest that if a Taiwan-aligned country switched recognition from Taiwan to China, Chinese investment could be expected to grow seven-fold, and Chinese loans by a factor of 122. As the existing studies suggest, higher economic growth is associated with more foreign direct investment (Hansen & Rand, 2006) and more foreign aid (Karras, 2006). Therefore, the following testable hypothesis is proposed:

> "Switching Helps" hypothesis: Switching diplomatic recognition to Beijing tends to improve a country's economic performance to a significant extent.

As mentioned above, China took aggressive action to undermine Taiwan's diplomatic relations after President Tsai's victory in the 2016 presidential election. One important instrument has been the Belt and Road Initiative (BRI). For instance, Panama (2017), the Dominican Republic (2018), and El Salvador (2018) joined the BRI as soon as they broke ties with Taiwan. It is likely that all of these countries anticipated that the BRI would lead to economic gains. The former president of Panama, Juan Carlos Valera, was explicit when he expressed great hope that the

BRI project would lead to a substantial economic boost (AP News, 2019). If economic performance is the most important rationale for Taiwan-aligned countries to switch relations, a Taiwan-aligned country will be more likely to do the same if it believes that other LAC countries had benefited from the BRI and achieved economic gains. In contrast, if a Taiwan-aligned country finds that the economies of China's partners became weaker after 2013, the country will strive to avoid such a potentially negative outcome and will be less likely to sever diplomatic ties with Taiwan. Therefore, the following hypothesis is proposed:

> "BRI Attracts" hypothesis: Taiwan-aligned countries are expected to have severed diplomatic ties with Taiwan after 2013 if their change in economic performance was worse than the change in economic performance in a comparison China-aligned country.

In summary, to test the "Switching Helps" hypothesis, I only focus on countries that severed ties with Taiwan. In contrast, to test the "BRI Attracts" hypothesis, I only consider the diplomatic behavior of long-term Taiwan-aligned countries. My assumption is that Taiwan's partners make their decisions on relations after seeing the impact of the BRI on their Beijing-aligned neighbors.

Empirical results

For the empirical analysis, I use the difference-in-differences (DID) design to test the two proposed hypotheses, and I categorize the LAC countries into two groups. The category of diplomatic switchers will be used to test the "Switching Helps" hypothesis, and the countries are Costa Rica, Dominica, and Grenada. The category of long-term Taiwan partners will be used to test the "BRI Attracts" hypothesis, and the countries are Belize, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and the Grenadines.

In my DID design, the dependent variable is the (log of) GDP per capita. The DID analysis compares the pre-to-post change in the average of the dependent variable for the country of interest to the pre-to-post change in the average of the dependent variable for the comparison country. Table 4.1 shows the countries included in my analyses. I conducted one DID analysis for each of the 15 countries.

There are two kinds of treatment in my analysis, depending on whether a country belongs to the category of diplomatic switchers or the category of long-term Taiwan partners. For diplomatic switchers, the treatment is the year in which the diplomatic change occurred. If the "Switching Helps" hypothesis is supported, we expect to see a positive treatment effect, which suggests that the country's average change in average logged GDP per capita between the pre-switching period and the post-switching period is better than the control country's average change in average logged GDP per capita between the same periods. For long-term Taiwan partners, the treatment is 2013, the year in which the BRI began to be adopted. If the "BRI Attracts" hypothesis is supported, we expect to see that most countries

Table 4.1 Taiwan-aligned countries in Latin America and the Caribbean (2000–2023)

Country	*Diplomatic relation with Taiwan*
Belize	Embassy established in 1989
Costa Rica	Legation established in 1941; embassy established in 1959; relations severed in 2007
Dominica	Embassy established in 1983; relations severed in 2004
Dominican Republic	Legation established in 1941; embassy established in 1957; relations severed in 2018
El Salvador	Legation established in 1941; embassy established in 1961; relations severed in 2018
Grenada	Embassy established in 1989; relations severed in 2005
Guatemala	Consulate-General established in 1935; legation established in 1954; embassy established in 1960
Haiti	Legation established in 1960; embassy established in 1965
Honduras	Legation established in 1941; embassy established in 1965; relations severed in 2023
Nicaragua	Consulate-General established in 1930; legation established in 1955; embassy established in 1962; relations severed in 1985; embassy re-established in 1990; relations severed in 2021
Panama	Consulate-General established in 1912; embassy established in 1954; relations severed in 2017
Paraguay	Embassy established in 1957
St. Kitts and Nevis	Embassy established in 1983
Saint Lucia	Embassy established in 1984; relations severed in 1997; embassy re-established in 2007
St. Vincent and the Grenadines	Embassy established in 1981

with negative treatment effects should have severed ties with Taiwan. The negative treatment effect here suggests that a Taiwan-aligned country's average change in average logged GDP per capita between the period from 2000 to 2012, and the post-2012 period is worse than a China-aligned counterpart's average change in average logged GDP per capita between the period from 2000 to 2012 and the post-2012 period.

Note that the cases of the Dominican Republic, El Salvador, Honduras, Nicaragua, and Panama pose some challenges to the analytical strategy. Although these countries recently broke ties with Taiwan, they are still considered long-term Taiwan-aligned countries, because the time period after the switch is too short to conduct meaningful DID analysis. Unlike most countries in the empirical analyses, the end year for the second period for the Dominican Republic, El Salvador, and Panama is not 2019 but the year when they severed ties with Taiwan, which was 2017 for Panama, 2018 for the Dominican Republic and El Salvador, and 2017 for

Panama. Because Nicaragua and Honduras broke ties with Taiwan in December 2021 and March 2023, respectively, the end year for the second period is 2019.

Regarding the selection of the control countries, I adopt two selection criteria. First, to ensure comparability in economic performance over time between the treated country and the control country, the level of economic development for the treated country and the control country must be similar.[1] In the analysis, I used the level of logged GDP per capita for each country as of 2019 as the basis for comparing logged GDP per capita among different countries. Second, the recognition policy for the control country must be consistent from the pre-treatment period through the post-treatment period. For the category of diplomatic switchers, because the treatment is the year of diplomatic conversion, the recognition policies for the treated country and the control country are the same in the pre-treatment period, but the recognition policies are different in the post-treatment period. For instance, I selected Panama as the control country for Grenada because both countries have similar levels of logged GDP per capita, and both countries maintained diplomatic ties with Taiwan before 2005, but after 2005, Grenada switched to China, while Panama stayed with Taiwan until 2017. For the category of long-term Taiwan partners, the control countries must have been aligned with Beijing for a long time. For instance, I selected Bolivia as the control country for Haiti because both countries have similar levels of logged GDP per capita, and Haiti has long recognized Taiwan, while Bolivia has sided with China.

Table 4.2 presents the empirical findings for the DID analyses. The results show that the "Switching Helps" hypothesis is not supported by the empirical evidence. Specifically, the pre-to-post change in the (log of) GDP per capita for Costa Rica, Dominica, and Grenada (which switched ties to China) was worse than the pre-to-post change in the (log of) GDP per capita for the respective comparison countries (which did not switch ties to China), and the DID results for these three countries all reach statistical significance. Therefore, the three cases provide strong evidence that switching ties from Taiwan to China does not improve economic performance relative to the comparison country.[2]

While the "Switching Helps" hypothesis only considers countries that broke with Taiwan, it is also relevant to examine the economic performance of those countries that switched to Taiwan. The DID result for Saint Lucia, the only country that broke with China in our analysis, is negative and statistically significant. This evidence suggests that after switching ties to Taiwan, Saint Lucia's economic performance also slowed down compared to its counterpart.

Table 4.3 summarizes the DID results for long-term Taiwan partners to assess the "BRI Attracts" hypothesis that Taiwan-aligned countries are expected to have severed diplomatic ties with Taiwan after 2013 if their economic performance was worse than the economic performance of a comparison China-aligned country. The results are primarily unexpected. Among the nine long-term Taiwan-aligned countries in the bottom row of the table that experienced a worse economic change than their China-aligned counterpart, only El Salvador, Honduras, and Nicaragua severed diplomatic ties with Taiwan. The top row of Table 4.3 indicates that among

Table 4.2 DID analyses for Taiwan-aligned countries in Latin America and the Caribbean (2000–2019)

Treated country	*Diplomatic Switcher*	*Pre-treatment Period*	*Post-treatment Period*	*Control Country*	*DID Coeff.*	*P > | t |*
Costa Rica	Yes	2000–2006	2007–2017	Panama	−0.195	0.006***
Dominica	Yes	2000–2003	2004–2018	Dominican Republic	−0.146	0.008***
Grenada	Yes	2000–2004	2005–2017	Panama	−0.283	0.000***
Saint Lucia	Yes	2000–2006	2007–2019	Guyana	−0.190	0.000***
Belize	No	2000–2012	2013–2019	Bolivia	−0.296	0.000***
Dominican Republic	No	2000–2012	2013–2018	Mexico	0.277	0.000***
El Salvador	No	2000–2012	2013–2018	Suriname	−0.003	0.89
Guatemala	No	2000–2012	2013–2019	Suriname	−0.001	0.984
Haiti	No	2000–2012	2013–2019	Bolivia	−0.223	0.000***
Honduras	No	2000–2012	2013–2019	Bolivia	−0.140	0.003***
Nicaragua	No	2000–2012	2013–2019	Bolivia	−0.061	0.180
Panama	No	2000–2012	2013–2017	Antigua and Barbuda	0.488	0.000***
Paraguay	No	2000–2012	2013–2019	Colombia	−0.007	0.886
St. Kitts and Nevis	No	2000–2012	2013–2019	Uruguay	−0.254	0.000***
St. Vincent and the Grenadines	No	2000–2012	2013–2019	Brazil	−0.003	0.953
Costa Rica	Yes	2000–2006	2007–2017	Panama	−0.195	0.006***
Dominica	Yes	2000–2003	2004–2018	Dominican Republic	−0.146	0.008***
Grenada	Yes	2000–2004	2005–2017	Panama	−0.283	0.000***
Saint Lucia	Yes	2000–2006	2007–2019	Guyana	−0.190	0.000***
Belize	No	2000–2012	2013–2019	Bolivia	−0.296	0.000***
Dominican Republic	No	2000–2012	2013–2018	Mexico	0.277	0.000***
El Salvador	No	2000–2012	2013–2018	Suriname	−0.003	0.89
Guatemala	No	2000–2012	2013–2019	Suriname	−0.001	0.984
Haiti	No	2000–2012	2013–2019	Bolivia	−0.223	0.000***

Honduras	No	2000–2012	2013–2019	Bolivia	−0.140	0.003***
Nicaragua	No	2000–2012	2013–2019	Bolivia	−0.061	0.180
Panama	No	2000–2012	2013–2017	Antigua and Barbuda	0.488	0.000***
Paraguay	No	2000–2012	2013–2019	Colombia	−0.007	0.886
St. Kitts and Nevis	No	2000–2012	2013–2019	Uruguay	−0.254	0.000***
St. Vincent and the Grenadines	No	2000–2012	2013–2019	Brazil	−0.003	0.953

Note: Saint Lucia is not a diplomatic switcher defined by this chapter; however, it switched diplomatic ties from China to Taiwan in 2007.
*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$

Table 4.3 Economic performance and the recognition policies of long-term Taiwan partners

	Maintained diplomatic ties with Taiwan (2000–2019)	*Severed diplomatic ties with Taiwan*
Better pre-to-post economic change than the China-aligned counterpart	None	Dominican Republic* Panama*
Worse pre-to-post economic change than the China-aligned counterpart	Belize* Guatemala Haiti* Paraguay St. Kitts and Nevis* St. Vincent and the Grenadines	El Salvador Honduras* Nicaragua

the two Taiwan-aligned countries that had a better economic change than their China-aligned counterparts, both severed diplomatic ties with Taiwan.

While the limited results in Table 4.3 show support for the "BRI Attracts" hypothesis, most of the remaining results in Table 4.3 are puzzling. The findings suggest that the Dominican Republic and Panama severed ties with Taiwan even though their economic changes had been better than their China-aligned counterparts after 2013. This evidence suggests that some factors other than economic calculations play a more important role in explaining the two countries' diplomatic breach with Taiwan. One possible explanation is that these countries already had a good relationship with China. The Chinese government established offices for commercial development in the Dominican Republic and Panama in the 1990s, suggesting that China had developed closer relationships with them than with other Taiwan-aligned countries.[3] Because China had developed closer relationships with them than with other Taiwan-aligned countries, and because the Trump administration "failed to pay too much attention to China's strong presence in Latin America" (Interviewee A2, December 13, 2021), it is not surprising that China targeted the Dominican Republic and Panama for winning formal diplomatic recognition.

The most puzzling results are the countries in the lower-left cell of Table 4.3. The results suggest that the six countries were willing to maintain diplomatic relations with Taiwan, even though similar countries with Beijing ties experienced better economic changes. What explains these countries' diplomatic behavior?

First, it is possible that they understood the economic risks of building formal relations with China. For instance, the BRI has been criticized for cost overruns and debt traps, as well as a lack of transparency and negative environmental and socio-economic consequences (Gransow, 2015). Moreover, the Chinese send their own workers to recipient countries for BRI projects, leading to negative effects on local employment (Cooke et al., 2018).

Second, Long and Urdinez (2021) argue that small states and "de facto states" like Taiwan have a tendency to recognize each other. De facto states build ties with small states to support their drive for sovereign statehood (James, 1999) and related benefits, such as help in applying for membership in international organizations (Coggins, 2014). In contrast, small states recognize de facto states in order to seek a relational status in which they "receive meaningful attention and respect from their partner," leading to the conclusion that "sustained attention from a near peer may trump the fickler attentions of a great power" (Long & Urdinez, 2021, p. 2). Long and Urdinez's case study of Paraguay supports this theory, and my analyses further demonstrate that it might also be applied in the cases of Belize, Guatemala, Haiti, and St. Vincent and the Grenadines. In addition to the incentive for "status seeking," it is possible that Taiwan might offer small states other incentives to retain them. Whereas there is some anecdotal evidence for corruption in such relationships, it appears not to be as decisive a reason as status seeking, because China would be able to more than match any such bribes in a contest for diplomatic recognition.

Overall, the empirical findings in this section suggest that switching ties from Taiwan to China does not necessarily help countries achieve better economic performance. I also find that the BRI might not necessarily be such a powerful attraction. In my empirical analyses, El Salvador, Honduras, and Nicaragua are the only Taiwan-aligned countries that switched to China because its growth was slower than a China-aligned neighbor. My analyses show that in addition to economic concerns, factors such as US policy in the region and preexisting relations between Beijing and Taiwan-aligned countries, as well as the appeal of high diplomatic status for small states, also help explain recognition policies.

Case studies

To further illustrate the economic impact of diplomatic ties with China or Taiwan in third counties, I conducted a series of case studies. I selected Costa Rica and Saint Lucia to examine why switching ties did not promote better economic performance. The case study of Guatemala seeks to demonstrate why it is willing to maintain diplomatic ties with Taiwan, and the study of El Salvador seeks to examine the impact of the BRI in its decision to break with Taipei.

Costa Rica

Costa Rica's GDP per capita in 2019 was $12,669.71, higher than the LAC average of $8,692.73, making it an upper-middle-income country with a population of 5.05 million people. According to World Bank data, Costa Rica's GDP per capita growth over the past two decades was negative only in 2009, while all other years were positive, with an average growth rate of 2.43% for the last five years (2015–2019). In 2019, its top three export destinations were the United States (35%), the Netherlands (5.3%), and Guatemala (4.9%). On the other hand, its top three importing countries were the United States (43.7%), China (10.77%), and Mexico (6.6%). Costa Rica's largest exports are in agriculture and machinery.

In June 2007, Costa Rica switched diplomatic ties from Taiwan to China. A memorandum of understanding (MoU) on the day of transition was revealed in 2008, revealing that in return for Costa Rica's prompt closure of the Taiwanese embassy, China promised to buy Costa Rican bonds worth $300 million and donate $130 million in aid (*Tico Times*, 2008). A free trade agreement between Costa Rica and China entered into force on August 1, 2011. They signed their Joint Action Plan for Cooperation (2016–2020) in 2015. More importantly, Costa Rica joined the BRI as one of its emerging market countries in 2018.

However, after building formal ties, a trend of trade imbalances became increasingly clear. In 2008, one year after the switch, its trade balance with China changed from positive to negative. From 2010 through 2015, Costa Rica's trade deficit with China was second only to its deficit with the United States. By 2016, China had become Costa Rica's largest trading partner, and also the country with which it maintained the largest trade deficit. This evidence might help explain why Costa Rica's economic performance was not as strong as expected after the switch in ties (Interviewee A2, December 13, 2021).

A number of countries that joined the BRI later suffered from "buyer's remorse," a phenomenon highlighted by the suspension or cancellation of previously agreed-upon projects. Costa Rica is one of the worst-affected countries, with troubled projects valued at $889.3 million (Malik et al., 2021, pp. 73–74). For example, the widening project from two to four lanes of the national highway between San José and Limón, National Route 32, has consistently fallen behind schedule (Rico, 2021). The project was undertaken by China Harbour Engineering Company (CHEC) at a total cost of $485 million. The loan stipulated that the project would be developed entirely by CHEC with the use of Chinese workers (Arias, 2014). In yet another troubled project, Costa Rica's state-owned oil company, Refinadora Costarricense de Petróleo S.A., and China's state-owned oil company, CNPC International Ltd., formed a joint venture in 2008 called the Chinese-Costa Rican Reconstruction Corporation (SORESCO). The China Development Bank (CDB) offered Costa Rica a $900 million loan to build an oil refinery in Limon. However, the refinery project was suspended in 2013 after an environmental impact investigation, and the project was cancelled in 2016 (*Tico Times*, 2016).

Saint Lucia

Saint Lucia's most significant exports are in the travel and tourism category. Beer, bananas, and plantains make up most of the agricultural exports. Its principal export destinations are the United Kingdom and the United States. Its largest importers are the United States, Trinidad and Tobago, and the United Kingdom. The labor market structure distribution is as follows: 75.34% in the service sector, 14.69% in the industry sector, and 9.97% in agriculture. GDP per capita was $11,611 in 2019, and the economic situation was described as stable.

In 2007, Saint Lucia broke ties with China and reestablished diplomatic relations with Taiwan. Taiwan helps support the relationship by providing technological service assistance. The Taiwan International Cooperation and Development Fund (TaiwanICDF) plays an important role in educational and technical assistance and cooperation. By providing "free-standing technical cooperation" (FTC), Taiwan offers technical help through education or workshops conducted by a team of specialists and volunteers (Herrera Ramos, 2019). Taiwan has agreed to help Saint Lucia diversify its agriculture, facilitate tourism, develop livestock, and create an information technology learning center, all in line with a poverty alleviation program agreed upon at the time relations were restored (CBS News, 2007).

The main agricultural product in Saint Lucia is bananas, but banana production has been greatly affected by the abolition of preferential tariff treatment for Caribbean bananas by the European Union, and also by an outbreak of banana leaf spot disease (black sigatoka). In 2012, Taiwan started to send experts to Saint Lucia to study and provide advice on the banana industry and set up a banana leaf spot control project. Today, the export volume of bananas from Saint Lucia is increasing. A related project to enhance the efficiency of the production-distribution supply chain in the fruit and vegetable sector in Saint Lucia became a WTO case study in 2016.

In 2017, Taiwan donated equipment intended to improve aquaculture development. A government official in Saint Lucia welcomed the assistance, saying that “aquaculture is growing tremendously across the island and the ministry (Department of Agriculture, Fisheries, Natural Resources) promotes the involvement of farmers in aquaculture” (Ministry of Agriculture, 2017). In addition to assistance in agriculture and fisheries, Taiwan offered internship programs for health professionals to come to Taiwan. It also provided assistance for the rebuilding of a prominent local hospital (St. Jude Hospital) and the purchase of essential medical equipment. Taiwan also offered information and communication technology, establishing a wireless local area network (WLAN) in public areas.

While Taiwan has helped economic development in this way, Saint Lucia’s economic performance has not directly reflected the impact. One possible reason is the limited economic relationship between the two countries. In 2019, Saint Lucia’s imports from Taiwan were only 0.06% of total imports, and Saint Lucia’s exports to Taiwan were only 0.14% of total exports. Foreign investment from Taiwan to Saint Lucia was approximately $1.1 million, the result of a Taiwanese company’s involvement in wood and bamboo products and manufacturing. There was no investment from Saint Lucia in Taiwan, and there are no pending economic or trade agreements between the two countries.

Guatemala

Guatemala is the largest economy in Central America and the largest of all of Taiwan’s diplomatic partners. Bilateral trade is much smaller than that between Guatemala and China, presenting a challenge to Taiwan’s economic contribution. In 2019, Guatemala’s exports to Taiwan were worth US$61.9 million, while Guatemala’s exports to China were three times larger. Guatemala’s imports from Taiwan to Guatemala were worth US$135 million, while imports from China were worth US$2.34 billion, more than 17 times larger.

Even though bilateral trade between Taiwan and Guatemala is limited, Taiwan has a long history of supporting Guatemala through aid and development assistance, which includes disaster relief, development infrastructure, international cooperation, and technical assistance in agriculture and aquaculture. The wide range of capacity-building projects Taiwan has undertaken include technical assistance on the use of bamboo as a construction material and support for a Guatemalan government food-processing project. For example, regarding the bamboo industry, TaiwanICDF has provided a technical cooperation project for eight years on cultivation, construction techniques, and the promotion of training courses and workshops (TaiwanICDF, 2021).

In addition to technical cooperation, Taiwan has assisted Guatemala with critical infrastructure, the most notable of which is the national highway, CA-9. The highway runs from Puerto Barrios in the northeast to Guatemala City to the port of San José in the south. It is an important and heavily congested route that has been described as a road canal because it connects the Atlantic and Pacific Oceans. Since 2006, Taiwan has provided assistance for construction work and widening projects. The CA-9 project was contracted out to a Taiwanese company, Overseas Engineering and Construction Corporation (OECC), and was completed, with a third phase of work to follow.

Although bilateral trade between China and Guatemala is significant, relations between the two countries are not close. For instance, China used its veto power at the UN Security Council to block the deployment of 155 UN military observers to Guatemala to monitor the implementation of the post-civil war ceasefire agreement in 1997. The use of the veto was in response to Guatemala's diplomatic relationship with Taiwan and its repeated support for Taiwan's membership in the United Nations (Lewis, 1997). Another example relates to a troubled project to build a power plant with a Chinese investment of US$700 million. The Chinese company, Machine New Energy Corporation (CMNC), and AEI Guatemala Jaguar Ltd. formed a consortium to bid on the project. CMNC was the general contractor, and the project started in 2010 but stalled three years later. Jaguar Energy Guatemala (JEG) filed an arbitration claim for damages against CMNC for breach of contract (Central America Data, 2013). The arbitral tribunal in Singapore ruled in favor of JEG and ordered that CMNC pay $149 million in damages due to the delay (Central America Data, 2016).

El Salvador

El Salvador is the smallest economy in Central America, with a per capita GDP ranked 29th among the 33 LAC countries. However, the country has managed to reduce poverty and economic inequality. The poverty rate fell from 39% to 22% in the 12 years after 2007. Likewise, the Gini index, which measures inequality, fell from 0.54 in 1998 to 0.38 in 2019. Despite these improvements, El Salvador still faces socioeconomic challenges that have hampered its economic development, such as political instability, natural disasters, increasing fiscal debt, and the COVID-19 pandemic.

Taiwan and El Salvador had formal diplomatic relations from 1941 until 2018. During the Cold War period, the authoritarian Chinese Nationalist Party regime in Taiwan provided strong support for military governments in Central America, including El Salvador, which were fighting left-wing insurgencies. A number of these regimes were accused of atrocities against civilian populations and other severe human rights abuses. Since its democratic transition, Taiwan has shown greater interest in promoting civil rights and democracy in the region. As a long-standing diplomatic partner, El Salvador consistently supported Taiwan's participation and involvement in international organizations such as the United Nations and the World Health Organization. In return, Taiwan funded programs through the TaiwanICDF to assist El Salvador in expanding its lending operations and provided technical assistance in the promotion and packaging of agricultural products. Taiwan signed free trade agreements with both El Salvador and Honduras.

However, Taiwanese assistance did little to stimulate rapid economic growth, and El Salvador switched ties to China in August 2018. Beijing responded with 3,000 tons of rice and a pledge of US$150 million for 13 infrastructure projects, only a few of which have been initiated. Relations were further strengthened with the election of President Nayib Bukele in 2019. In December of that year, he signed several MOUs with China, mostly for development projects amounting to $500 million. They included a sports stadium, a national library for San Salvador, a pier in La Libertad City, water treatment facilities in La Libertad and Ilopango, and the "Surf City" resort project to attract tourism (Álvarez-Ramírez, 2020). El Salvador joined the BRI the same year.

Before severing ties with Taiwan, El Salvador had received a $20 million loan from China through the Inter-American Development Bank (IADB) to finance small and medium-sized enterprises, according to AidData.[4] In July 2018, the then-president, Salvador Sánchez, drafted a proposal providing a legal framework for Chinese foreign investment (Farah and Yates, 2019). The plan was to establish a special economic zone covering 14% of the country's land area and about half of its coastline. The centerpiece was to be a Chinese-operated port at La Unión. However, the initiative was rejected by the Legislative Assembly (Gerard, 2021).

Taiwan said that relations were cut primarily because it had refused a request to help finance the port at La Unión (Public Diplomacy Coordination Council, 2018), although El Salvador denied the allegation. Built at a cost of $200 million and inaugurated in June 2010, the port at La Unión was one of El Salvador's largest infrastructure projects. On August 23, 2018, three days after the diplomatic switch, the Chinese state-owned company Asia-Pacific Xuanhao (APX) sought a 100-year lease over the port and requested tax exemptions for 30 years. This prompted security worries in the United States, because it opened the door to a possible Chinese military and intelligence base in Central America (Londoño, 2019). The proposal, which resembles many other BRI projects, has gone no further. Japan had also threatened to withdraw its $102 million funding stream for the area if El Salvador granted operating rights to the Chinese company (Ellis, 2021; Portada et al., 2020, p. 564).

Economic concerns are the main factor that contributed to El Salvador's decision to sever ties with Taiwan. In the press conference, during which a joint communiqué was signed between China and El Salvador, Chinese foreign minister Wang Yi said that after establishing ties with China, El Salvador would be a partner in the BRI (Ministry of Foreign Affairs of the People's Republic of China, 2018). It is also reported that several BRI-related MOUs between the two countries were linked to El Salvador's diplomatic conversion (Myers & Bernhard, 2019). All in all, according to El Salvador's presidential spokesman, Roberto Lorenzana, the primary factor that drives the decision to build ties with China is to attract Chinese investment to boost the economy of El Salvador (Renteria, 2018). The then-president, Sánchez Cerén, also stated that building ties with China "will bring great benefits for the country, and will open up extraordinary opportunities" (Alemán, 2018).

Conclusion

In this chapter, I conducted quantitative and qualitative studies to examine the political and economic ramifications of Taiwan and China's contest for diplomatic recognition. The quantitative analyses showed that switching diplomatic relations does not necessarily lead to stronger economic performance. In the cases of Costa Rica, Dominica, and Grenada, the change in economic performance was worse for its Taiwan-aligned counterpart. The case study of Costa Rica suggests that, after switching relations, Costa Rica experienced lower economic growth, primarily due to an increasingly large trade deficit with China.

In addition, the empirical results demonstrated that being economically worse off than a China-aligned comparison country does not necessarily motivate Taiwan's partners to switch. El Salvador, Honduras, and Nicaragua were the only cases that showed strong evidence of a Taiwan-aligned country abandoning Taipei because their change in economic performance was worse than that of a China-aligned neighbor.[5] The case study of El Salvador shows that this country is a typical case in which economic concerns played a crucial role behind the decision to break ties with Taiwan. In contrast, the case studies of Saint Lucia and Guatemala indicate that both countries maintained formal ties with Taiwan because they received significant assistance from Taiwan.

The quantitative analyses, however, also show that most of Taiwan's diplomatic partners had a worse economic change from before to after the BRI compared to those recognizing China. This puzzling evidence, which might be the result of the limited time span covered by this chapter, suggests that small states may be willing to pay a price for a higher relational status with Taiwan (Long & Urdinez, 2021). One interviewee stated that the key reason small states were willing to maintain diplomatic relations with Taiwan was not financial, but because "they have shared values of democracy," and having ties with Taiwan gave small states "a feeling of being accepted and respected" (Interviewee A1, October 30, 2021).

The empirical evidence that, as of January 2024, a majority of long-term Taiwan-aligned LAC countries were willing to maintain diplomatic relations with Taiwan, even though similar countries with Beijing ties experienced better economic changes, does not necessarily imply that these countries will keep aligning with Taiwan in the long run. From 2017 to 2023, the five LAC countries that cut ties with Taiwan were largely motivated by the anticipated economic gains from China. The COVID-19 pandemic did not stop China from using instruments of economic statecraft to pursue its strategic goals, including seeking to diplomatically isolate Taiwan. Moreover, with the recent new surge of a "pink tide" in Latin American countries, newly elected leftist governments in the region have attempted to strengthen their relations with Beijing. The left-leaning Honduran president Xiomara Castro Zelaya made clear her intention to sever ties with Taiwan during her presidential campaign in 2021, and the diplomatic switch was eventually made in the second year after she took office. Given that China's often lavish promise of economic benefits might continue to be powerful a attraction, a strong rise of leftist parties in Taiwan-aligned countries might be a warning sign for their diplomatic relations with Taiwan.

What are the policy implications of this chapter? Although the two hypotheses about the economic motives for switching diplomatic relations are not strongly supported by the evidence, this does not suggest that economic considerations play no part. One implication from the case study of El Salvador is that the Taiwanese government should work harder to contribute to the economies of its diplomatic partners. The government agencies most responsible, the foreign ministry and economics ministry, work separately and lack coordination. A coordinated institutional framework would help them be more effective in advancing Taiwan's diplomatic position.

Moreover, the Taiwanese government should strengthen the role of state-owned companies, such as the Taiwan Agricultural Investment and Development Co. Ltd. (TAIC) and Mitagri Co. Ltd. (Mitagri), in forging stronger economic links. One interviewee suggested that close economic engagements contribute to sustained political links. State-owned companies should be encouraged to take the lead in making investments, thereby stimulating further interest from the private sector (Interviewee A3, November 5, 2021).

Third, given that the United States is the largest trading partner across the region, Taiwan should seek further cooperation with Washington to shore up its diplomatic position. Taiwan's state-owned companies could work with the US International Development Finance Corporation (DFC) to make effective investments in Taiwan-aligned countries. The Taiwanese government could promote a strategic framework for state-owned companies and private companies to coordinate with US trade agencies to promote trade in Taiwan-aligned countries.

Finally, the US Taiwan Allies International Protection and Enhancement Initiative Act of 2019 (TAIPEI Act), might play a crucial role in supporting Taiwan in strengthening its official diplomatic relationships. In particular, Section 5 of the TAIPEI Act indicates that the US government should consider "altering its economic, security, and diplomatic engagement with nations that take serious or significant actions to undermine the security or prosperity of Taiwan." Since the TAIPEI Act's enactment in 2020, Taiwan has lost two diplomatic allies in the LAC region, namely, Nicaragua and Honduras. While US–Nicaragua relations have become increasingly intense in recent years, Honduras' switch in diplomatic recognition from Taiwan to China is the first real test for the TAIPEI Act. It remains to be seen whether and to what extent the TAIPEI Act will be translated into potential countermeasures by the US if countries break formal ties with Taiwan.

Notes

1 Ideally, the pre-treatment slope of log of GDP per capita for the control country should be similar to the pre-treatment slope of log of GDP per capita for the treated country.

2 It should be noted that the DID analysis here in this chapter is about averaging the points of logged GDP per capita for the treated country and the control country within each period (pre-treatment and post-treatment), and is not accounting for the slope of the points. Ideally, the actual yearly changing patterns of logged GDP per capita should be considered.

3 As of January 2024, Haiti is the only Taiwan-aligned country that has a Chinese commercial development office.

4 See https://china.aiddata.org/projects/85351/

5 So far, Nicaragua is the only LAC country that has broken ties with Taiwan twice. The first time was in 1985. Daniel Ortega, the then-president of Nicaragua, decided to sever ties with Taiwan because the Taiwanese government supported the "Contras" to fight against the Ortega-led revolutionary junta and his government after the 1984 election. After Violeta Chamorro won the 1990 presidential election, Nicaragua restored diplomatic ties with Taiwan. In 2006, Ortega won the presidential election and regained power. He successfully won the 2011, 2016, and 2021 elections. Beginning from the Trump administration, the tension between Nicaragua and the US has become so intense that the US did not have strong leverage to prevent Nicaragua from building official relations with China. In December 2021, the Ortega government severed ties with Taiwan.

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Appendix

This appendix lists the codes and positions held by the three individuals that I interviewed in Taiwan between October and December 2021. The interviews were conducted in Taipei City. Information regarding each of the interviewees is followed by the city and date when the meeting took place. I list the interviews in alphabetical order by the interviewees' last name. In compliance with the rules of the Institutional Review Board, the interview data are anonymous to preserve confidentiality.

Interviewee A1. Foreign diplomat in Taiwan. October 30, 2021

Interviewee A2. Taiwanese diplomat. December 13, 2021

Interviewee A3. Former TaiwanICDF executive officer. November 5, 2021

5 Economic development and Africa's diplomatic and grassroots relations with China and Taiwan

Derek Sheridan

Introduction

Taiwan and China have both used diplomatic relations with African countries to bolster their own global standing (Abidde, 2022). During the 1960s, concerned about waning support for Taiwan's continued presence on the UN Security Council, the US encouraged Taiwan to deepen agricultural development cooperation with newly independent African states (Liu, 2013). China, at the time excluded from the UN and competing with the Soviet Union, built relationships with newly independent African states and liberation movements, providing military training and development assistance, the most famous of which was the construction of the Tanzania–Zambia Railway between 1970 and 1975 (Monson, 2009). In 1971, Beijing prevailed over Taipei at the UN with the support of African countries. During the 1990s, Taiwan improved its diplomatic standing by offering some of the poorest African states generous development aid in exchange for diplomatic recognition (Taylor, 2002). Since the late 1990s, however, China has successfully reduced these gains from a peak of 10 diplomatic partners in 1997 to only 1 today: Eswatini.

The Forum on China-Africa Cooperation (FOCAC) was first held in 2000 and 2003 as ministerial meetings, but the 2006 Forum on China–Africa Cooperation, hosted in Beijing, was organized as a full summit, involving 41 heads of state from 48 African states (Shelton & Paruk, 2008). It was given prominent media attention, and China's first policy white paper on Africa was unveiled. Most importantly, specific commitments were made, including US$5 billion in financing, a pledge to double aid by 2009, the establishment of a China–Africa Development Fund with $5 billion in capital, and expanded infrastructure commitments (Grimm, 2012). Following the FOCAC, there was a sharp increase in trade and investment with Africa, and economic relations have deepened further since. The forum set the pattern for subsequent triannual forums, during which trade deals, financing packages, and investment budgets were announced. For example, $60 billion was committed in 2015, followed by another $60 billion in 2018 and $40 billion in 2021 (Sun, 2021). Attendance at the FOCAC and eligibility for financing and aid are premised on acceptance of the "One China Principle," and countries that recognize Taiwan are excluded (although China did extend invitations to Taiwan's diplomatic

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partners to be observers during the early years of the FOCAC). As of 2024, Eswatini remains Taiwan's last diplomatic partner in Africa. Burkina Faso cut ties with Taiwan in 2018 just before that year's FOCAC, during which China expressed hope that Eswatini would one day "join the China-Africa family" (Gao, 2018).

China's diplomatic success has been supported by growing economic links over the same period. This has reinforced the assumption that African states choose China over Taiwan for economic motivations. Have closer diplomatic relations with China in fact contributed to improved economic performance in African countries? In order to evaluate this question, this chapter first examines the case of Malawi, a long-term African diplomatic partner of Taiwan that broke ties in order to establish relations with China in 2008.[1] The chapter considers both the available economic data and secondary literature evaluating Malawi's evolving relationship with China. The chapter finds that a closer diplomatic relationship with China does not automatically translate into greater overall economic growth. This is because many other factors also affect economic performance. Nonetheless, the measurement, interpretation, and experience of economic performance – and the role that China plays in influencing it – vary among political actors. This highlights the more complex factors determining the decisions of political actors and their constituents.

The chapter then shifts perspectives to consider how Taiwanese and African business and civil society actors have promoted informal relations between Taiwan and African countries in the absence of government-to-government ties. The chapter relies on extended interviews with 23 Taiwanese businesspeople based in Africa, African diplomats and students based in Taiwan, and civil society actors who have worked or lived in multiple African countries and have played key roles in promoting informal relations. Based on the experiences and insights of these actors, the chapter concludes that the Taiwanese government's emphasis on maintaining either formal diplomatic ties or government-to-government relations may overlook how economic and social relations promoted by informal contacts have played a potentially more significant role in maintaining links between Taiwan and Africa.

Did recognizing China contribute to economic growth?

The case of Malawi

The common assumption is that countries recognize China because they are primarily following their economic interests. During the period of so-called "dollar diplomacy" in the 1990s and early 2000s, China and Taiwan competed for diplomatic recognition by offering economic incentives. In much of Africa since 2006, these interests have extended further. The emergence of China as a major trade partner, investor, and financer has been accompanied by a debate about whether relations with China, in comparison with Africa's "traditional" partners (i.e., former colonizers, the United States, and the Bretton Woods institutions), will deliver substantive economic development – particularly, a structural "economic transformation" similar to that experienced already in Asia (Calabrese & Tang,

2023) – or whether relations with China will merely reproduce Africa's political–economic dependency on external actors (Zajontz, 2022). In other words, debates about China in much of Africa are primarily influenced by the political–economic divide between the Global North and South, more often than what is framed in Taiwan and its Global North allies as a division between authoritarianism and democracy.

Assuming that countries which recognize China are motivated by the desire to promote economic growth, the motivation for the research project leading to this book was to use econometric methods to answer a basic question: Did recognizing China contribute to economic growth compared to countries that recognized Taiwan? Using GDP per capita growth as the metric, a difference-in-differences (DID) analysis was conducted for countries in Africa, Latin America, and the Pacific (see Chapter 3). The fact that the DID tests produced mixed results raises the question of why relations with China or Taiwan appear to help in some cases, but not in others. What are the causal factors? How do diplomatic relations with Beijing alter a country's economic relations with China? How do these changes affect economic conditions? In order to evaluate these questions, economic relations should be broken down into trade, foreign direct investment (FDI), aid, and finance.

The effects of trade between China and the Global South have been extensively debated. On the one hand, China's exports of manufactured goods have been found to be correlated with a decline in African manufacturing (Giovannetti & Sanfilippo, 2016; Marukawa, 2017). On the other hand, China's demand for raw materials has contributed to rising commodity prices, thereby improving the economic performance of raw material exporters (Taylor, 2015). However, these are indirect effects through the global market rather than the direct effects of diplomatic relations. Establishing diplomatic relations with China may increase the volume of a country's exports to China, but it can also more rapidly increase the volume of its imports from China.

A more economically sound motivation for diplomatic ties with China is to attract investment and financing. In order to be eligible for state-promoted investment packages and financing, it is necessary to be diplomatic partners with China, and not with Taiwan. For example, economic packages and pledges have typically been announced during the triannual FOCAC, but only countries recognizing China have been invited. Nonetheless, China has previously extended invitations to Taiwan's diplomatic partners to attend as observers, perhaps in order to advertise the promised benefits of switching. For countries seeking to diversify their economies, Chinese FDI has been concentrated in construction and manufacturing (Sun et al, 2017; Marukawa, 2017). Capital goods, such as machinery, are also a significant component of Chinese imports, which contribute to local manufacturing (Munemo, 2013; Wolf, 2017). Some African countries, such as Ethiopia, have even sought to replicate the East Asian "flying geese model" (Lin & Xu, 2019). The financing of infrastructure projects with Chinese loans has been more controversial because it has contributed to the debt burden in many countries. On the other hand, improved infrastructure and continued financing is nonetheless necessary for long-term economic growth (Ryder & Fu, 2021).

The economic effects of closer ties with China are not one-dimensional, and it also must be remembered that China is not the only relevant actor which affects economic performance. Therefore, if African and Chinese politicians and officials argue that closer diplomatic ties with China alone will deliver economic growth, they may contribute to building higher expectations than they can deliver. Furthermore, economic growth is not the only way of evaluating "economic performance." In order to properly evaluate how the benefits of relations with China are interpreted in political terms, it is necessary to understand how economic benefits are measured, understood, and experienced by people.

The country of Malawi following its decision to switch ties offers a strong case study. The effects of breaking ties with Taiwan on Malawi's economic performance are interpreted in different ways, offering insights into what local actors consider relevant. Shortly after Malawi broke ties with Taiwan to recognize China in 2008, President Bingu wa Muratharika was alleged to have "told the nation that Malawi will not only benefit from aid but also China's rich experience. He said it would help turn Malawi from poverty to riches" (Mweninguwe, 2017). Did Malawi's decision to switch make it "rich," or at least contribute to Malawi's economic growth?

Based on the methodology of the DID analysis (see Chapter 3), comparing GDP per capita growth trends vis-à-vis Niger (the control country for the analysis) before and after recognition, Malawi's economic performance began to slow during the six years following its establishment of ties with China. What happened?

The first effect of switching ties was increased trade volume. Malawi's exports to China increased exponentially (Ndzendze, 2021, p. 439). Ndzendze argues that recognizing Taiwan may be costly for countries because it denies them access to the larger Chinese market, and that the prospect of increasing exports may be a motivation for countries to recognize China. Rich and Banerjee (2015, p. 155) argue that countries which do not depend on exports may be less susceptible to Chinese pressure to abandon Taiwan. However, the case of Malawi's rapid increase in exports was not replicated in the countries of the Gambia and Burkina Faso, where trade with China, including exports, was already rising before there was a change in ties.[2]

Nonetheless, the volume of Malawi's imports from China increased even more (Figure 5.1). Between 2001 and 2007, Malawi had less trade with China than Niger (an average of US$25.6 million per year versus US$51.9 million per year), but it also had a smaller trade deficit with China ($24.2 million per year versus $51.6 million per year), and already exported more to China overall than did Niger ($4.9 million versus $985,000). After 2008, Malawi's exports to China increased even further, but its trade deficit also expanded (to over $100 million in 2009, and upward to a peak of $559 million in 2021).[3] Malawi's exports were primarily agricultural before 2008, providing 90% of the country's foreign exchange (Banik & Chasukwa, 2016, p. 149). Malawi's exports to China after 2008 have followed the same pattern (Nkhoma, 2020, p. 697).

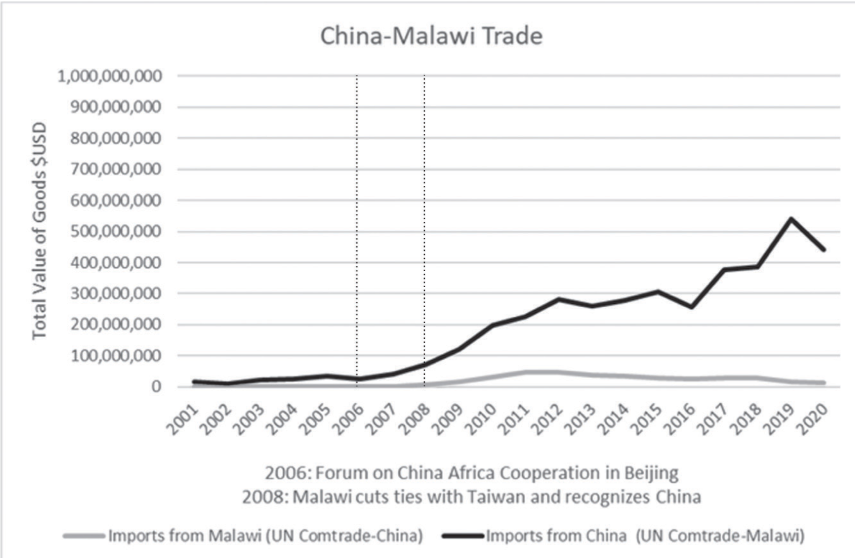

Figure 5.1 Graph showing rising Chinese imports to Malawi versus Malawi exports to China over time.

Source: Created by the author with data from UN Comtrade.

Furthermore, China's share of Malawi's exports peaked at 5.8% in 2015, which means that its contribution to Malawi's GDP has never surpassed 1%.[4] In general, Africa's agricultural exports to China have been limited despite efforts to promote them (cf. Brautigam, 2015). De Bruyn (2014) found the impact of China on Malawi's agriculture to be limited.

Chinese FDI to Malawi increased after 2008, but high levels of FDI stock were not reported until 2013.[5] Overall, total FDI stock and flow remained higher in Niger during the whole period (a peak of $1.4 billion in FDI stock in 2021 vs, $292 million in 2018, and a peak of $282 million in flows in 2021 vs $15 million the same year), which means that while Malawi converged with Niger in terms of trade with China, it did not converge in terms of FDI. Nonetheless, early Chinese FDI in Malawi was concentrated in manufacturing (Thindwa, 2014, pp. 51–52), generating 13,796 jobs between 2005 and 2012, a "significant" number according to Thindwa (2014, p. 60), but still substantially below some of the numbers promised. The overall contribution of industry to Malawi's GDP has averaged 18.5% since 2001, and only 18.1% since recognizing China in 2008. By 2020, the figure was 18.7%, still close to the 18.9% recorded the year of the switch (and far below the peak of 33.4% in 1992).[6]

Mweninguwe (2017) writes that Malawi's debt to China is "most worrying to many Malawians." However, while Malawi's debt has risen over the last decade, the government reports that only 9% of that debt was owed to China in 2019, a number which dropped to 6% in 2021.[7]

The data suggests that recognizing China has had a limited effect on improving Malawi's economic performance. As for Malawi's worsening performance in the 2010s, there may be other factors at play. For example, in 2011, several major Western donors suspended aid to Murtharika's government on the grounds of corruption. At the time, 40% of Malawi's national budget was dependent on Western aid (Banik & Chasukwa, 2016, p. 147). The suspension of aid contributed to an economic crisis that was in part related to a lack of foreign exchange, which in turn led to anti-government demonstrations. During the demonstrations, Chinese traders, whose numbers increased after 2008, were targeted, which involved attacks on shops and even violence directed at the traders themselves. This led to the passage of a law, supported by the Chinese Embassy, limiting where foreign traders could operate (Nkhoma, 2020, p. 696). While Chinese traders were targeted, some have argued that support from "emerging donors" at the state level, including China, but also India and Arab states, may have actually lessened the scale of the economic crisis (Banik & Chasukwa, 2016, p. 150).

The fact that different Chinese actors could be both seemingly blamed for exacerbating – if not causing – the crisis and also praised for mitigating it reflects not only the difference between the effects of Chinese traders and Chinese government aid, but also the politics of debating what constitutes the China factor, what is recognized as an economic benefit or harm, and for whom.

Interpreting economic diplomacy

The data suggests that establishing relations with China had a limited effect on improving Malawi's economic performance, but the implied "lesson" depends on the audience. A political–economic interpretation, concerned primarily with answering the question of how to promote economic growth in Africa, would be that a country's relations with China is not the most significant variable determining that country's economic growth. This is especially convincing when one considers that the DID analysis presents mixed results between different countries. However, a geopolitical interpretation, concerned primarily with contesting China's use of economic diplomacy to isolate Taiwan, is that recognizing China does not guarantee economic growth. In the politically charged language of audiences listening to this case in Taiwan and Washington, DC, the conclusion is that China makes "false promises." However, the variability of the DID results suggests the story is more complicated, and the conclusion still depends on knowing what exactly was promised, by whom, and to whom.

As noted above, then-President Muratharika justified Malawi's decision to break ties with Taiwan and establish ties with China by telling the nation "that Malawi will not only benefit from aid but also China's rich experience. He said it would help turn Malawi from poverty to riches" (Mweninguwe, 2017). The first part of this statement simply emphasizes China as a model. President Muratharika argued that diplomatic relations with China would benefit Malawi because it could learn from China's experience and maybe even emulate it. It is worth noting that African leaders have also shown an interest in other East Asian states, such as Singapore, Malaysia, South Korea, and Taiwan, for similar reasons.

The second part of the statement is more specific, but how literally should "poverty to riches" be interpreted? The fact is that in other parts of Africa, Chinese diplomats, investors, local politicians, and journalists covering their speeches frequently oversell the benefits that investment pledges and project proposals will deliver. For example, while conducting fieldwork in Tanzania in 2015, I often read news stories about Chinese investment packages and plans, only to later discover that the reporter had reported on investment pledges as done deals, or reported on private investment plans as projects supported by the Chinese state. Exaggeration can lead to disappointment. For example, at the time of the switch in Malawi, many NGOs and government agencies directly approached the Chinese embassy asking for financial support, a situation that led the ambassador to publicly state that China was not a "miracle performer," a complaint which caused a minor diplomatic incident early in the relationship (Nkhoma, 2020, p. 694). In a 10-year retrospective of relations with China, Mweninguwe (2017) responds to the claim of President Muratharika's promise of "poverty to riches" by noting that "the country has since remained poor."

On the defensive, Malawian officials pointed to other factors influencing long-term economic growth, such as the effects of climate change. They also pointed to specific projects completed by China (Mweninguwe, 2017). The DID analysis uses GDP per capita growth as a metric of "economic performance," but "economic performance" can be measured, represented, and "performed" in multiple ways. For example, Calabrese and Tang (2023), while arguing that trade produces "mixed results," express support for the net positive effects of investment, infrastructure construction, capacity building, and "spillovers" from Chinese firms. From the perspective of long-term economic growth, these types of infrastructure may have effects that cannot be measured in the short term. However, the future is by definition speculative, and the continued deferral of economic transformation, accompanied by continued economic shocks like COVID-19 and the Russian war in Ukraine, means that the promise of these arguments is vulnerable the longer structures remain the same. Indeed, one of the short-term benefits of Chinese investment is their "visibility." Ordinary people can see roads and buildings under construction, and Banik and Chasukwa argue that China is attractive to African politicians because it can deliver "visible" signs of development to their constituents in the short term (2016, p. 156).

However, the political effects of visibility can also go the other way. For example, in Malawi, as in other countries, there was controversy regarding the increased migration of Chinese traders competing with Malawian traders. To compare, as explained by a student from the Gambia in Taiwan whom I interviewed, the establishment of relations with China is associated with increased overfishing and unsustainable logging. It is worth noting, however, that debates over the benefits and consequences of Chinese investment more broadly echo debates over the benefits and consequences of capitalist economic engagement in Africa. From the perspective of Taiwan, in cautioning countries against establishing ties with China because it will not deliver higher economic growth, one cannot discount the benefits and desirability seen in the "projects" themselves. Even in the absence of the kind of industrial takeoff witnessed in China, and before that, in Taiwan, the very appearance of Chinese industrial investment in export processing zones in countries such as Ethiopia becomes desirable. Political conclusions depend on whether one sees these as the first stages of a better future or as false starts unable to break a longer pattern. Had countries like Malawi not switched ties, would the alternative have implied improved economic performance, or the same outcome? Deciding which metrics are relevant to determining whether relations with China are beneficial or not, is ultimately "political" insofar as they involve making value judgments about what benefits and harms, and for whom, will be recognized.

What about the perspectives of ordinary Malawians? A frequent critique that can be made about scholarship in Africa is the silencing or the marginalization of "African voices." In the context of geopolitical competition between external actors, the consequence of this silencing is the weaponization of "African voices." Both supporters and critics of China in Africa have mobilized "African voices" to support their arguments against counterclaims. This contributes to the problem of individual African journalists or interviewees becoming treated as stand-ins for the entire population. For example, during a conference, a Taiwanese journalist, hearing me quote the Malawian journalist Mweninguwe pointing out that Malawi was still poor 10 years after establishing relations with China, reported the quote in the Taiwanese press as the viewpoint of "local people." The Malawian journalist's statement undoubtedly reflects larger views. However, according to a public opinion survey conducted by Afrobarometer in 2019 (Tsoka, 2020), perceptions of China's influence in Malawi are actually much more positive than negative, although lower than the previous survey in 2014. Some 50% of respondents described the influence as positive, and only 14% described the influence as negative. Additionally, 4% reported that their perceptions were neither negative nor positive, and a very significant 32% "did not know."

The trends in Malawi echo larger perceptions across Africa. According to the larger Afrobarometer study, 63% of respondents across the continent hold a positive opinion of China's economic and political influence in Africa. However, 60% of survey participants also held a positive view of the United States (Sanny & Selormey, 2021, p. 2). This suggests that the assumption of competition between China and the United States in Africa, not to mention between China and Taiwan, may not determine how people evaluate these relationships.

The significant percentage of respondents claiming to not know raises a larger question surrounding what it means to have an opinion about China. Are those expressing opinions basing their ideas on direct experiences with Chinese people and products, or on their engagement with news sources about Africa–China relations? The Afrobarometer survey also asks respondents to speculate on the reasons why there are both positive and negative perceptions. In Malawi, the most significant reasons people believe contribute to positive opinions are affordable consumer products, infrastructure investment, and business investment (Tsoka 2020, p. 3). The most significant reason for negative opinions is the perception that Chinese goods are inferior in quality (68%). In other words, China is experienced primarily through the everyday consumer goods people purchase and use. Surprisingly, concerns about China dominating local business or labor markets, land acquisition, and the behavior of Chinese businesses are considered relevant only to a small, but still present, minority (less than 10% in each case).

Survey data is limited in conveying how respondents conceptualize the world on their own terms, rather than the terms of survey questions, but it is worth considering how engagement with China is informed by long-standing experiences of structural inequality with external actors. As a South African student based in Taiwan explained during an interview, describing his own skepticism about China's influence in his country, "growing up in South Africa, I've always seen foreign powers as potential colonizers." In this case, he challenged the views of other Africans, who, he explained, argued that China was not a "potential colonizer" because it invested in infrastructure, which the former colonizers never delivered. In this and other cases, the meaning of "colonization," which is more often used as a vague signifier of economic domination rather than political occupation, often turns on whether relations are believed to deliver development or more of the same. In this context, the ability of Taiwan and Taiwanese actors to maintain and develop ties with African states and actors depends on whether they fit into African priorities and interests. Nonetheless, it cannot be assumed that economic growth is the only factor, because the politics and related interests may be more complicated.

African interests and the space for Taiwan

The circumstances behind countries that break ties with Taiwan and recognize China are often more complex than the mere initiation of an offer from China. Within an overall situation of structural inequality and dependency, African leaders and politicians have historically taken advantage of competition among external actors, including between China and Taiwan. In several cases, African leaders facing organized opposition or close elections have requested more aid or contributions than Taiwan was willing to provide, leading to an opening for China. This was widely reported in the case of the Gambia (Shih, 2013), but during interviews with Taiwanese businesspeople, I heard similar stories about Chad which, according to one story, broke ties in 2006 after Taiwan rejected a request to provide the president with funds needed to pay civil servants. In the case of Malawi, President Mutharika may have initiated talks with China in order to get ahead of his presidential challenger, Bikili Muluzi, who allegedly promised Chinese officials he would switch ties if elected (Nkhoma, 2020, p. 692).

African states have pursued closer ties with China, sometimes at the expense of relations with Taiwan, for a variety of reasons. The history and memory of third world solidarity is important for some countries, particularly in countries such as Tanzania, and it features prominently in diplomatic rhetoric. However, the motivations surrounding why any particular political leader pursues closer relations with China are more complex.

Economic benefits, as discussed above, are always a key factor, whoever the donor may be. As one official from an African country in Taiwan stated, "the agenda of the continent is not secret – it's about infrastructure, health, poverty alleviation, job creation, industrialization […] if you meet us there, I think you're going to be welcomed." China is welcomed because it is perceived to deliver specific goods. For example, multiple officials mentioned FOCAC, the China Import-Export Bank, and the New Development Bank as specific points of attraction. Officials from Somaliland also noted the appeal of China's "non-interference" policy but pointed out that attitudes may now be changing because of concerns over debt burdens and "economic colonization." African officials based in Taiwan nonetheless emphasized that Taiwan had a positive role to play if it could align itself with Africa's priorities. For example, a Nigerian official mentioned technology transfer as something Taiwan was capable of providing.

In addition to any interest in attracting investment, there are also regional political and geopolitical factors. For example, both Nigeria and South Africa want to be members of the UN Security Council, or at least promote UN reform. A South African official pointed to China's support for South Africa's membership in the Brazil, Russia, India, China and South Africa (BRICS) grouping as an important gain from the relationship. Somaliland, by contrast, sees little prospect of gaining Chinese recognition of its independence. An official said the de facto state therefore saw little risk in establishing informal relations with Taiwan, with which it feels a natural solidarity because of their international marginalization. China has limited ability to retaliate against Somaliland, because they have little trade, and the Somalilanders who do business in China use foreign passports anyway. In addition, Somaliland's outreach to Taiwan may also be partially aimed at an audience in the United States. For example, during a visit to Washington, representatives from Somaliland lobbying Congress for support emphasized the ties they had established with Taiwan. They framed the relationship in the context of "opposing" China in Africa (Kine, 2021). In other words, Somaliland may be using its relations with Taiwan as leverage to gain more support from the United States. In the case of Burkina Faso switching to China in 2018, an additional factor may have been China's pressuring of neighboring states by indicating it had reservations about supporting the G5 Sahel security initiative due to member Burkina Faso's continued relationship with Taiwan (Thiombiano, 2021). In this case, regional "peer pressure" may have been a factor.

However, a more mundane motivation is that of politicians seeking to consolidate support by channeling resources from powerful outside actors, a condition of so-called dependent agency (Bayart, 2000). The interests of political actors in establishing ties with Taiwan in the 1990s or establishing ties with China after the 2000s reflect this. While Taiwan moved away from the much-criticized "dollar diplomacy" after 2008, I was surprised when an African student I interviewed suggested Taiwan should resort to that approach if it wanted to improve ties. While the prospects for establishing diplomatic ties or setting up representative offices may be limited, Taiwanese businesses have greater opportunities. As one Taiwanese businessperson I interviewed explained, no African government minister would turn them away if they came to propose construction of a factory.

Despite the assumption that relations with China mean that African states are unwilling to develop ties with Taiwan, in actuality, there have been much broader spaces for interaction. For its part, China has generally tolerated informal economic relations between its diplomatic partners and Taiwan, including the operation of representative offices, provided these relations do not involve direct government-to-government interactions (Anthony & Kim, 2017, p. 208). However, the precise red lines may be contingent on the state of cross-strait politics. For example, China did not establish relations with the Gambia while the Kuomintang was in power in Taiwan, seemingly upholding the "diplomatic truce," which was contingent upon Taiwan's support of the "One China" principle. When the Democratic Progressive Party came to power in 2016, China quickly moved to recognize the Gambia and continued poaching other diplomatic partners. Nonetheless, African states may sometimes take initiatives on their own against Taiwan, even without evidence of Chinese pressure. The complicated interaction between when and how China applies pressure and the political motivations of African leaders mean that greater economic dependence on China is not necessarily correlated with greater limitations on relations with Taiwan.

Grassroots economic and social relations between Africa and Taiwan

The process of interviewing non-state actors, Taiwanese who have lived and worked in Africa, and Africans who live, work, and study in Taiwan, reveals a different way of thinking about Taiwan–Africa relations. Specifically, the dissatisfaction many express with the efficacy of the Taiwanese government's foreign policy in Africa provides a ready-made critique of the basic assumptions of state-to-state diplomacy, particularly the emphasis on recognition, offering alternative ways of understanding the value of relations and their agents. The emphasis on government-to-government relations between Taiwan and Africa may be useful in demonstrating Taiwan's sovereignty, but a state-centered approach may undervalue the role of people-to-people contacts. Not only have informal ties in business and civil society helped maintain connections to Africa in the absence of diplomatic ties, but they have also provided resources for Taiwan's foreign policy in terms of social capital and expertise in places the Taiwanese state cannot go. Nonetheless, private sector actors I interviewed claimed that Taiwan's government retains what they consider to be a traditional mindset about relations with Africa and does not fully utilize or support the networks and expertise developed by such individuals. These actors also question the form and purpose of international relations, sometimes comprehending relations in moral rather than transactional terms. Nonetheless, there is a subtle relationship between valuing people-to-people ties in moral terms and valuing them in terms of their utility with regard to Taiwan's recognition and future survival as an independent state. However, there is also the danger of romanticizing people-to-people ties, especially when interests in profits can lead to situations of exploitation.

Taiwan's people-to-people relations with Africa are based on both earlier histories of migration and more recent initiatives and exchanges. The Taiwanese were in fact among the earliest ethnic Chinese actors in postcolonial Africa. The largest number went to South Africa, reaching at least 50,000 in the 1990s (Park, 2017, p. 40). Before 1998, there were 620 Taiwanese businesses in South Africa, with a total capital investment of US$1.5 billion, employing 45,000 people (Anthony & Kim, 2017, p. 206). While these numbers have declined, people-to-people relations with South Africa remain the closest. Continent-wide, in 2020, according to Taiwan's Overseas Community Affairs Council, there were 10,000 Taiwanese operating 400 businesses across 28 African countries. Although they are outnumbered by Chinese migrants, some Taiwanese, on account of being earlier arrivals, are prominent figures in what is locally considered the "Chinese community." In Ghana, a Taiwanese man I interviewed, who first arrived in the early 1980s, is now a well-known industrialist. In Nigeria, the head of the Taiwanese business association is developing the first Taiwanese-owned industrial park in the country. In Uganda and Tanzania, Taiwanese have headed Chinese business associations. In Ghana and Cameroon, the head of a customs clearance house has established a Taiwan showroom featuring Taiwanese products. In Malawi, in 2008, the same year ties were cut, a Taiwanese social enterprise investor, in collaboration with European NGOs, developed a coffee enterprise selling seeds to smallholder farmers and purchasing their yields. He has politically connected friends and has been invited by neighboring countries to invest there as well. Many of these individuals and their families established their businesses, livelihoods, and relationships independent of the Taiwanese government. They established themselves in countries with which Taiwan has never had diplomatic relations.

More recently, a younger generation of Taiwanese has established ties with Africa through NGOs (both Taiwan-based and international),[8] churches,[9] and Taiwan-based Buddhist charity organizations (such as Tzu Chi[10] and the Amitofo Care Center[11]). African students from countries other than Taiwan's diplomatic partners have also arrived in Taiwan through partnerships between universities and foreign NGOs.[12] Other organizations, like Wow Africa,[13] have established media platforms designed to improve knowledge about Africa in Taiwan. Tsou (2020) lists 18 different NGOs from Taiwan that are active in Africa in the areas of health, social welfare, and agriculture.

These efforts supplement those of organizations such as the Taiwan–Africa Business Association (TABA) and the government-sponsored Africa–Taiwan Economic Forum (ATEF), which have organized trade delegations and seminars in collaboration with African representatives, the Ministry of Foreign Affairs (MOFA), and the Overseas Community council to promote trade investment.

Taiwanese private actors have had greater mobility and freedom of access in Africa than Taiwanese government officials, which means that some have personal networks with high-ranking local officials. For example, a Taiwanese business person based in Uganda was able to directly negotiate to allow athletes to compete in the 2017 Universiade and not be blocked by that country's Ministry of Foreign Affairs (Chen, 2017). In the past, Taiwan's diplomacy in Africa has been dependent, in a quiet way, upon the social capital of these networks. A businessperson who goes by the nickname "King of Africa" began doing business in Africa in the 1980s, leading business delegations and developing a network of contacts so broad that Taiwan's government sought his assistance for sensitive negotiations with African leaders who were contemplating breaking ties. In Nigeria, it was the head of the Taiwanese business association who assisted Taiwan's trade representative office in finding a new location in Lagos after being evicted from the capital city of Abuja during a diplomatic incident in 2017. In order to forestall the possibility of China pressuring the office's Nigerian landlord in the future, the Taiwanese businessperson purchased the property themself to rent to Taiwan's trade office.

Perhaps the most successful recent example of non-state ties supporting diplomatic relations is the establishment of informal relations between Taiwan and Somaliland. Volunteers from the Taiwan Root Medical Corps (TRMC) were the first to go to Somaliland, laying the foundation for the subsequent establishment of relations (Tsou, 2020, p. 23). Indeed, one of the officials at Somaliland's office in Taiwan first came to Taiwan on a Taiwan MOFA scholarship several years before ties were established.

Taiwanese in Africa nonetheless have to walk a thin line given the presence of China. The people I interviewed generally agree that China does not directly interfere in their economic or social activities unless they are too "political." One person considered this a form of pressure, explaining how displaying a Taiwanese flag in the office or arranging Double Ten (national day) celebrations can lead to friction. Taiwanese who have played more active roles facilitating contacts between African and Taiwanese officials have faced greater challenges. For example, the government of Mozambique ran a trade office in Taipei for several years through the efforts of a Taiwanese man who was raised in South Africa and Mozambique after his family migrated there in the 1990s. According to my interview with him, the office in Taipei was eventually closed by Mozambique due to pressure from the Chinese government. The aforementioned "King of Africa" usually had no trouble traveling or giving talks at trade exhibitions in Africa, but he has faced more obstacles from local officials in recent years.

Nonetheless, many Taiwanese in Africa consider it practical to maintain cordial relations with Chinese embassies, mindful that they can offer assistance, such as during the COVID-19 pandemic. Some of this is a deliberate attempt to win Taiwanese sympathy. Indeed, several interviewees claimed that in the past, they had received more preferential treatment than mainlanders. For example, Taiwanese who showed up at some Chinese embassies applying for their Taiwan Compatriot Pass (the document China provides Taiwanese in lieu of a visa for visiting China) would be served on the spot rather than being asked to first make an appointment online. According to one interviewee, however, this has changed in the past few years. However, when a Chinese embassy extends invitations to events, some will politely attend, nonetheless insisting that they maintain red lines. Some said they socialize with Chinese people and even officials in nonpolitical settings but avoid explicitly political settings, such as the Overseas Chinese Association for the Peaceful Unification of China. Maintaining good relations with Chinese people is important for Taiwanese businesspeople, because many rely on them as customers or even business partners. As one Taiwanese businessperson implied, the purpose of maintaining good relations with Chinese officials is that turning down invitations to such events as Chinese New Year celebrations might mark them as pro-independence and possibly negatively affect their business. As another businessperson argued, it is a good idea to maintain cordial relations with the Chinese Embassy because "they can help you" in the event of trouble, especially given the lack of a Taiwanese diplomatic presence. Those Taiwanese who maintain a distance from "political" activities implied that they do so out of patriotism for Taiwan, or the Republic of China.

While I had originally expected my interviewees to want to distance themselves from Taiwan's foreign policy in Africa in the interests of building their own businesses, I found that many of them had well-formed views on what Taiwan's government should be doing, not only to support them but also to more broadly support Taiwan's informal diplomacy.

People-to-people relations and the critique of state diplomacy

A frequent criticism from private Taiwanese actors is that their government has not done enough to promote or support investment in Africa. This is despite President Tsai Ing-wen's "Africa Plan," established in 2018, which is nonetheless dependent upon the Overseas Community Affairs Council and the Taiwan–Africa Business Association to mobilize Taiwan's existing business networks in Africa. However, the government's activities have been criticized for being primarily limited to educational seminars and verbal encouragement. Instead, as several interviewees argue, the government should provide material incentives and support for investors and consider ways of collaborating with third parties from other countries to jointly support projects.

Rich and Banerjee (2015) write that "economic diplomacy offers Taiwan options to expand its role in international relations where formal diplomatic recognition is unlikely" (p. 157). However, Taiwan alone cannot compete on the same scale as China. Taiwanese businesspeople in Africa also do not necessarily see themselves in direct competition with Chinese businesses. Instead, they are trying to develop a niche by offering higher quality products and services. Multiple interviewees pointed to the sale of Taiwanese machinery as an area where Taiwanese can compete on quality and service. In that respect, their positioning is similar to other countries competing on their country brand in Africa (such as Turkey).

The challenge is the cultural gap between government officials and business and civil society actors. Taiwan's government is hesitant to interfere in the "free market" by directly supporting businesses. By contrast, there is a perception that the Chinese state does much more to support at least its state-owned enterprises in Africa. The challenge, according to one African official, is that Taiwanese businesspeople are very cautious about investing in Africa due to a lack of sufficient information. In the case of Somaliland, an official who spoke to me argues more could be done to help the government survey the country's resources and opportunities. He also observed that Chinese investors tend to be better informed about Africa than their Taiwanese counterparts.

On the other hand, business and civil society leaders criticize a traditional mindset that places too much emphasis on diplomatic partners rather than building relationships everywhere, and that understands economic relations with Africa almost exclusively in terms of "aid" rather than "business." Taiwanese businesspeople, especially those with long-term experience in Africa, emphasize the body of expertise they possess, implying that it exceeds the expertise possessed by staff at the MOFA. This is underscored by the fact that there is no dedicated research institute in Taiwan for African studies, despite the fact that there was a small surge in the number of African diplomatic partners during the 1990s. The comparison with the development of Southeast Asian studies in Taiwan is instructive. Academic connections between Taiwan and Africa have therefore largely been forged on a person-to-person level. Indeed, the first research center with Africa in its name was opened at National Chung Hsing University in 2018 by Professor Chen Jia-Zhong, an agricultural engineer by training, who has collaborated with various NGOs on projects in multiple African countries. However, such research centers are ineligible to receive funding from MOFA, except for specific events affiliated with diplomatic priorities, such as hosting the King of Eswatini during his visits to Taiwan.

The Taiwanese government supports NGO initiatives through agencies like the Taiwan International Cooperation and Development Fund (Tsou, 2020), but despite some exceptions, interviewees said there was strong institutional pressure to focus on regions where Taiwan has a diplomatic presence. When countries break ties with Taiwan or impose difficulties on Taiwan, the standard diplomatic response has been the principle of reciprocity. Nonetheless, the people I have interviewed found these actions counterproductive because they unnecessarily damage informal links, which should be preserved to the advantage of Taiwan even after a formal break in ties. For example, one of the most controversial actions taken by Taiwan after a break in ties is the suspension of scholarships for students from diplomatic partners, often in the middle of their semester. Several interviewees pointed out that punishing students for the actions of their governments neglects the role the students could play in future relations. For example, engineering students may become customers of Taiwan's machinery exports, while others may continue to feel gratitude for Taiwan's role in their education. It is worth mentioning that educational networks are one of the ways in which China has developed rapport with African countries (Benabdallah, 2020). The MOFA, the Ministry of Education, and the Taiwan International Graduate Program (TIGP) do offer international scholarships, but they are either targeted to diplomatic allies or are otherwise difficult to apply for. The MOFA scholarship is designed primarily for diplomatic partners, but, according to one foreign diplomat, it is also partially open to African students from countries that do not recognize Taiwan. However, there is a limited quota, which is not publicized. The Ministry of Education scholarship is open, but applying is difficult given the limited number of diplomatic offices in Africa. A self-funded Togolese student in Taiwan told me they attempted to apply for a scholarship but eventually gave up because Taiwanese officials told them they would need to submit the application at the representative office in Lagos, Nigeria, without any guarantee the office would accept the application.

Besides government scholarships, Taiwanese universities and private institutions have been much more proactive in recruiting and supporting African students from non-diplomatic allies. For example, although Tanzania has had a historically close relationship with China, I have regularly encountered Tanzanians who have studied in Taiwan because of scholarships provided by Taiwanese Buddhist organizations in South Africa, the Jane Goodall Institute in cooperation with Chang Jung Christian University, and universities themselves. However, some of these scholarships have strict minimum grade point average requirements, which can place heavy pressure on students. Furthermore, there is limited publicity about these scholarships, and in order to obtain visas, students still need to travel to Taiwan's representative office in either Nigeria or South Africa. A student I know was only able to come to Taiwan because they happened to befriend a Taiwanese volunteer in their country whose teacher not only helped them apply for a scholarship but also funded their travel to obtain a visa.

While private actors have taken the lead in recruiting and supporting students, this can also result in abuse. For example, financially struggling private universities have repeatedly lured foreign students, often from Southeast Asia, but most recently from Uganda, to Taiwan with scholarships that place them in exploitative factory work, ostensibly "internships," while failing to provide them the educational resources originally promised (Yang, 2022). The dependence of African students on Taiwanese businesspeople to provide loans for traveling to Taiwan's diplomatic offices means the potential of creating problematic debt relationships. The lesson from these scandals is that people-to-people relations cannot be romanticized, because the combination of the economic interests of private actors and the structural fact of economic inequality between Taiwan and many African countries leads to situations that require close oversight from relevant government ministries.

The aforementioned student from Togo compared his experience in Taiwan to his earlier experience studying in South Korea. He argued that South Korea was much more proactive in extending scholarships to students, even from countries that did not have South Korean embassies. Taiwan, on the other hand, limited its scholarships primarily to students from the small group of remaining diplomatic partners. He described Taiwan in this respect as being "politically closed." The reason he came to Taiwan was because he met his girlfriend, who is Taiwanese, while she was also studying in South Korea. He noted the irony that while the government of South Korea was more open than Taiwan, he found establishing social relationships with ordinary South Koreans relatively more difficult than with ordinary Taiwanese, although he added the caveat that this was just his own experience. He further noted that despite Taiwan having a much smaller population of resident Africans than South Korea, in his experience, Taiwanese employers were relatively more willing to hire Africans. Furthermore, he even noted that as a West African, he could find many of the same ingredients needed for West African food in Taiwan, such as okra, cassava, taro, and hibiscus, items he says were harder to find in South Korea. He concluded that instead of focusing on diplomatic links or economic strength, Taiwan should "open a road for people." One concrete proposal he suggested was to send Chinese teachers abroad. South Korea, from his perspective, was better at "showcasing" Korean culture abroad "without asking for anything in return."

Taiwanese private actors have occasionally taken steps to preserve ties after diplomatic breaks, such as extending tuition and living support to students stranded in Taiwan. A student from the Gambia described an emergency meeting at his school after the Gambia cut ties in 2013, where the school officials promised to find a way to allow them to continue their studies until the end of the program. When Taiwan cut funding from its programs in Malawi after 2008, Pingtung Christian Hospital and its owner took over the funding and operation of the Taiwan-built Rainbow AIDS clinic (Liu, 2021). By way of comparison, Chinese private actors have also been an important part of China–Africa relations. For example, in Burkina Faso, relations between Chinese wholesale traders and Burkinabe businesspeople established a constituency in favor of diplomatic relations years before the government switched ties in 2018 (Mohammad, 2014).

While it is unlikely that Taiwan will create a lobby to reestablish formal ties, creating a constituency of people who are friendly to Taiwan can help in other ways. This is important because most people in Africa, like elsewhere, do not understand the nuances of the China–Taiwan conflict. The African students I interviewed all described having a limited understanding of Taiwan before arriving, including a limited understanding of the exact nature of its political relationship with China. A student from the Gambia explained that even when the country recognized Taiwan, the only Gambians who were really aware of Taiwan were those like himself who could travel to Taiwan. When African governments release statements supporting China's positions on Taiwan, it partly reflects their suspicion of Taiwan's strongest allies, an affective and political legacy of the experience of anti-imperialism during the Cold War that should not be underestimated. It also reflects the fact that the concerns of countries like Taiwan are separate from the awareness and concerns of most ordinary people in Africa. Maintaining channels of communication at least ensures there is some level of opportunity for people to hear Taiwan's story from ordinary Taiwanese themselves rather than from either Western or Chinese media perspectives. For example, an African student described casually assuming that Taiwan was just a part of China until a Taiwanese friend they met in their home country opened the map on their phone and delivered a passionate lecture offering the Taiwanese perspective. As one Taiwanese engaged in NGO projects in Africa explained, his only "condition" for assistance is that if Taiwan ever gets attacked by China, they will at least say something publicly on Taiwan's behalf. The student from Togo who advocated sending Chinese-language teachers from Taiwan abroad made a similar argument regarding why having Taiwanese teachers on the ground would be good for Taiwan. According to Pingtung Christian University, local officials in Malawi have expressed gratitude that Taiwanese have continued to help in the medical field despite the loss of formal ties (Tsou, 2020, p. 16).

However, Taiwanese individuals and organizations are sometimes low key about their initiatives, perhaps in order to preemptively avoid feared interference from China. For example, a Tanzanian student studying in Taiwan described how National Tsing Hua University donated computers to a private school in Tanzania, but did not tell anyone outside the school. The student wrote a letter of introduction on behalf of the donors to local officials who, in return, wrote a letter of thanks recognizing the university's donation. Even if the donation was to a private school, the student argued, it was a contribution to "society." Furthermore, these donations were independent initiatives unrelated to the government. In their words, the Taiwanese were "not going with a flag" but as "human beings," and "if Taiwan wants to contribute to society, you can't say no." Although there may be a fine line between showing uninterested generosity and appearing symbolically transactional, the African students in Taiwan whom I interviewed, at the least, think Taiwanese actors are actually being too shy.

In any case, a wide network of people-to-people relations may be more sustainable over the long term than government-to-government relations, which are vulnerable to not only Chinese pressure but also, more fundamentally, to the decisions of a limited number of African political actors. As in the case of China, Taiwan's high-level relationships with African countries have primarily been close relationships with rulers and political elites. This makes Taiwan's diplomatic relations particularly vulnerable to the whims of individual leaders, or to political changes in leadership. An official from Somaliland stressed that Taiwan needed to have a comprehensive understanding of ethnic and political factionalism in different countries. Reviewing the history of diplomatic switches, Bhaso Ndzendze (2021, p. 435) observes that

> of the three states that were not new democracies but still switched (i.e., Senegal, Chad and Malawi), two (Chad and Malawi) did so within a year of an upcoming election following a declining performance in the preceding presidential election by the incumbents.

The other reason this situation makes Taiwan vulnerable is that it links the legitimacy of relations with Taiwan to the legitimacy of the ruler. For example, Rich and Banerjee (2015, p. 155) discovered statistically that less democratic African countries have been more likely to recognize Taiwan.

These facts raise difficult questions about the long-term sustainability of Taiwan's relations with its last formal diplomatic partner in Africa, the Kingdom of Eswatini, which international news reports never fail to remind us is Africa's last "absolute monarchy." Given Eswatini's importance to the MOFA, the country receives prominent attention at government-sponsored events in Taipei. Taiwanese diplomats and businesspeople I have spoken to all describe their relationships with the king in glowing personal terms as a close friend who is a strong supporter of Taiwan. While this may reassure them of Eswatini's friendliness to Taiwan, violent pro-democracy and anti-monarchy demonstrations in the country in 2021, and their subsequent violent repression by the state, indicate a risk to Taiwan's relations in the event of democratization or political transition (Dlamini, 2021).

This poses a dilemma for Taiwan's argument that its foreign policy is based on democratic values, and that the countries with which it has the closest ties are also democracies. The argument holds if Taiwan keeps the focus on its informal relations with Lithuania or Somaliland, but is less convincing for pro-democratic opponents of the government in Eswatini, as well as opponents of Taiwan's diplomatic presence in Africa. Historically, African states that recognized Taiwan were more likely to be undemocratic, and democratization in those states has usually led to the recognition of China (Rich & Banerjee, 2015, p. 156). This dilemma is by no means unique to Taiwan, reflecting the contradictions between what countries would like to believe about themselves and the pragmatic choices they make. Nonetheless, it is important to acknowledge the contradiction and recognize that it affects how one's country is perceived. The fact that South Africa did not immediately break ties with Taiwan after 1994, but attempted to pursue a two-China policy until recognizing China in 1998, is one example of how Taiwan protected itself by reaching out to the African National Congress (Davies, 1998). Of course, if Taiwan were to suddenly start becoming visibly close to Eswatini's opposition, it is possible to speculate that this might have the effect of actually pushing the government toward China. In either case, the long-term endurance of Eswatini's ties with Taiwan will ultimately depend on how Swazi society at large feels about the relationship.

Conclusion

The questions this chapter ultimately raise are as follows: What is the value of a diplomatic relationship? Specifically, what is the value for African states of a diplomatic relationship with China rather than a diplomatic relationship with Taiwan? Additionally, what is the value for Taiwan of diplomatic relationships with African states? If the value for African states of diplomatic relationships with China is taken to be improved economic performance or development, the results of the econometric study undertaken in this book suggest that the value of diplomatic relationships may be less than assumed. Countries that switched ties from Taiwan to China did not necessarily see greater overall economic growth than those that did not switch. In the case of Malawi, despite promises by its government that recognizing China would help Malawi's economy, the country not only did not see major growth, but realized a relative decline in the first several years. Breaking down economic relations with China into their constituent parts reveals differing effects. While establishing a diplomatic relationship with China may lead to greater exports, increased FDI, and financing and aid for infrastructure development, the results may also yield a disproportionately larger increase in imports from China, less FDI than initially expected, and controversies concerning the presence of Chinese traders or new sources of debt. However, the benefits and harms of these relationships may be unevenly distributed, and overall economic performance is affected by a wide range of other factors.

For these reasons, the interpretation of China's effects on economic growth are unavoidably political. Economic performance can be demonstrated in different ways. While GDP per capita growth is one metric for making claims about the vitality of an economy, when Chinese and African diplomats and politicians talk about "tangible" benefits, they often point to specific projects: roads, schools, numbers of scholarships, and so on. The relationship between these visible forms of evidence and long-term economic growth is ambiguous. On the one hand, improvements in infrastructure and local capacity are argued to be the conditions of possibility for economic growth, if not structural transformation. On the other hand, if these projects do not lead to substantive changes in the economic lives of ordinary people, disappointment in the promises of relationships with China will likely ensue.

Furthermore, while the China factor in economic performance is not the only factor affecting economic performance, the perception that the China factor is significant is still politically consequential. In the case of Malawi, one of the reasons the switch was criticized by some Malawians was precisely because the government had promised the switch would deliver benefits China alone could not deliver.

In this context, recognizing that African states are motivated in part by the need to demonstrate to voters and constituents that they are delivering development, or at least maintaining livelihoods, Taiwan has greater opportunities for engaging in Africa than may be currently recognized. However, it is important to recognize that many African states and officials do not necessarily see engagement with China and Taiwan as mutually exclusive, although there are examples of officials preemptively maintaining distance from Taiwan in order to avoid hurting their ties with China. Nonetheless, local officials are unlikely to reject proposals for investment from private Taiwanese individuals. Rather than seeing the conflict between Taiwan and China in terms of democracy versus authoritarianism, the primary concern of many African states and citizens is to address the North–South gap, not to mention the gap between Africa and the "rising South."

Taiwanese and African businesspeople, students, and civil society actors interviewed for this chapter are generally critical of Taiwan's government for being insufficiently engaged with Africa. The problem with their perspective is that Taiwan's government has placed too much emphasis on diplomatic relations and not enough emphasis on people-to-people relations. Given the fact that Taiwan has lost most of its diplomatic partners in Africa to China, Africa may be considered a "lost cause." From the perspective of civil society actors, this view, which primarily considers Africa a subject of aid, neglects the economic and social relationships Taiwan could develop with Africa beyond its remaining relationship with Eswatini or, more recently, with Somaliland. For Taiwan, economic and social relations promoted by people-to-people relations with African countries may play a key role in extending relations beyond the limits of formal ties. Indeed, one of the ironies of Taiwan's situation is that ordinary Taiwanese have greater flexibility in building relations with Africa than Taiwan's government. Nonetheless, such actors complain that the state does not do enough to support their efforts, although the MOFA has held multiple seminars on Africa over the last several years.

As Benabdallah (2020) recently argued, one of the key strategies of the People's Republic of China in investing in varied educational programs, capacity building programs, and media has not been immediate soft power goals, but, rather, building elite interpersonal relationships. These are not dependent on diplomatic recognition. Even states that break ties with Taiwan can continue to maintain elite relations. Nonetheless, not only has Taiwan broken ties, but it has also engaged in practices such as terminating scholarships or ending programs. In these events, Taiwanese civil society actors have sometimes worked to preserve these relationships.

People-to-people relationships are more durable than state-to-state relations. Nonetheless, it is important that people-to-people relations not be romanticized. This is particularly true when it comes to educational exchanges. The recent scandals concerning Ugandans (as well as many more Southeast Asian students) recruited by private recruiters for educational programs, only to be placed in exploitive factory jobs, demonstrates the need for better oversight and coordination between government ministries.

In conclusion, it is necessary to look beyond diplomatic relations. In many ways, Taiwan already does this with "the West." Indeed, Taiwan's most important partners are not diplomatic allies. This is true in Africa as well. However, the neglect of Africa extends in the opposite direction of the strategy of China in the Global South. From some perspectives, this is about aligning with "values" rather than "transactions," but this neglects the concerns of the Global South, which are resistant to the new Cold War framing. If Taiwan wants to reach the largest global community possible, it may need to recognize the types of motivation leading Global South countries to align with China. By maintaining and building connections, Taiwan can at least ensure that its voice is heard in Africa, from Taiwanese themselves. However, the instrumentalization of ties in a zero-sum competition may also backfire. From another perspective, the best strategy may be to delink the two. As one Taiwanese entrepreneur explained, Taiwan should seek to have as many global relationships as possible, because relationships are a good in and of themselves.

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Notes

1 The reason for discussing Malawi is as follows. In terms of conducting DID analysis on the effects of switching ties to China, most of the cases occurring after the 2006 Forum on China Africa Cooperation (the Gambia (2016), São Tomé and Príncipe (2016), Burkina Faso (2018)) are too recent for long-term effects to be measured. Malawi, a long-partner that switched ties in 2008, offers a case with more data and existing scholarship.
2 UN Comtrade data, accessed from trademap.org.
3 Ibid. Import data from trade partner used to estimate exports.
4 Ibid. Malawi's export data used for this calculation.

5 Data from the China-Africa Research Initiative at the School of Advanced International Studies (SAIS-CARI), accessed from sais-cari.org
6 Data from the World Bank, accessed from data.worldbank.org
7 Data from the Malawi Ministry of Finance, accessed from www.finance.gov.mw/
8 Love Binti (www.lovebinti.org/mission); 還有我 And Me Taiwan (www.facebook.com/andmetaiwan/).
9 Step30 International Ministries (www.step30.org/).
10 www.tzuchi.org.tw/en/index.php?option=com_content&view=category&layout=blog&id=87&Itemid=272
11 www.acc.org.tw/en/text?id=2
12 For example, the International Program for Sustainable Development, in cooperation with the Jane Goodall Institute, at Chang Jung Christian University (https://dweb.cjcu.edu.tw/ipsd?lang=en).
13 https://wowafrica.tw/

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6 Economic development, diplomatic relations and engagement with Taiwan and China in Oceania

Pei-yi Guo, Cheng-Cheng Li and Sra Manpo Ciwidian

Introduction

In September 2019, the Sogavare administration in the Solomon Islands made the decision to terminate its diplomatic relationship with Taiwan and establish formal relations with China. The government's task force report noted that many countries and Pacific Island states had recognized China, which had financed significant infrastructure projects in the region under its flagship initiative, the Belt and Road Initiative (BRI). Accordingly, the report suggested that the Solomon Islands could reap economic advantages by making the transition.[1]

In March 2023, David Panuelo, the then-departing president of the Federated States of Micronesia (FSM), issued an open letter in which he exposed China's attempts to bribe and intimidate Micronesian officials. He cautioned that China's ambitious behavior could increase the likelihood of conflict in the region and proposed that the FSM consider transitioning its diplomatic recognition from China to Taiwan.[2]

Over the past two decades, China has significantly increased its influence in the Pacific through aid, loans, trades and other forms of economic engagement. Many leaders of Oceanian countries have welcomed China's deeper involvement in the region, despite criticism about China's infrastructure projects and concessional loans leading to debt burdens and financial risks. Facing China's challenge, some countries such as Australia, the United States and New Zealand have unveiled new foreign policy initiatives explicitly or implicitly aimed at thwarting China's expansion in the region.

Taiwan is at the forefront of the region's geopolitical contest. Among the remaining states that officially recognize Taiwan, which are 13 as of May 2023, four of them are Pacific Island countries, namely, Nauru, Palau, Tuvalu and the Marshall Islands, after the Solomon Islands and Kiribati switched their allegiance to Beijing in 2019.[3] During diplomatic tussles over recognition in the Pacific, proponents of China often contend that such a move would promote economic development due to China's vast economic clout. However, no extensive research has studied the actual impact of such shifts.

This chapter aims to examine the impact of the diplomatic choices between Taipei and Beijing on economic development in Oceania. We first critically

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analyze the primary narratives of "China as a threat" and "China as an alternative" and consider Taiwan's role in the region, which has been largely sidelined and understudied. Next, we provide an overview of the general economic landscape and inner variations across the region. We subsequently employ the Difference-in-Differences (DID) analysis to compare the economic performances of Oceanian countries aligning with Taiwan to those aligning with China. We then discuss recent changes in the sectors of fisheries, mining and tourism, especially in relation to Taiwan and China. We conclude by outlining several policy implications.

The changing geopolitical context and related studies in Oceania

The new Cold War? Geopolitics in twenty-first century Oceania

Greater attention has been accorded to China's expanding presence in the Pacific in recent years. China organized the inaugural China–Pacific Island Countries Economic Development and Cooperation Forum, a high-level dialogue mechanism, in 2006, and held the second and third forums in 2013 and 2019. The Pacific Islands constitute part of China's ambitious global agenda, as demonstrated by President Xi Jinping's launch of the BRI in 2013 (Liu, 2019). All of China's ten diplomatic allies in the region have signed memorandums of understanding (MOUs) to participate in the BRI. President Xi visited the region twice in 2014 and 2018, and China continues to expand its influence through various means, such as the China–Pacific Islands Countries Foreign Ministers Meeting held in 2021 and 2022.

China's approach to the Pacific region differs from the security-oriented framework led by the United States. By framing itself as a developing nation, China has advanced a South-to-South discourse and distinguished itself from Organization for Economic Cooperation and Development (OECD) aid donors by stressing its adherence to the principle of "non-interference." Many leaders in Oceania have welcomed China's deeper involvement in the region. Diplomatic competition with Taiwan is viewed as one of the motivating factors for China's greater engagement. Since Taiwan's President Tsai Ing-wen assumed office in 2016, China has adopted a more assertive approach in the region and has had some success in persuading the Solomon Islands and Kiribati to switch ties to Beijing in 2019.

Taiwan has cultivated diplomatic relations with multiple Oceanic countries since the 1970s, and the region has become critical to its foreign policy (Lai, 2007). During President Chen Shui-bian's tenure, Taiwan adopted a more forceful stance and hosted two Taiwan–Pacific Allies Summits in 2006 and 2007 to counter China's increasing advance, while the following president, Ma Ying-jeou, pursued a "diplomatic truce" across the Taiwan Strait. The current president, Tsai Ing-wen, made two trips to the region in 2017 and 2019, and reopened the Austronesian Forum office in Palau. China's growing presence and influence in the region, coupled with the diplomatic switch of two countries in 2019, poses a significant challenge to Taiwan.

In response to China's increasing contest, the United States, Australia and New Zealand have introduced new foreign policy initiatives aimed at countering

China's growing influence. The United States introduced the Pacific Pledge of Indo-Pacific Strategy in 2017 to increase aid and security presence in the region. Australia, for its part, launched the "Pacific Step-Up" initiative in the same year to assert its interests, while New Zealand declared its "Pacific Reset" in March 2018.[4] These initiatives come with financial commitments to strengthen strategic partnerships with island countries. As the geopolitical tensions escalated, Australia, the United Kingdom and the United States announced the "AUKUS" pact in September 2021 in the Indo-Pacific (The White House, 2021).

The competition in the Pacific region has intensified in recent times. In April 2022, the Solomon Islands signed a security pact with China, which had raised concerns among Western and Pacific countries. The next month, Chinese foreign minister Wang Yi embarked on a visit to eight Oceanic countries and attempted without success to promote a regional economic and security agreement during his meetings with Pacific Island nations in Suva. The opposing camp quickly responded. Australia's new foreign minister, Penny Wong, embarked on multiple tours to reconnect and strengthen ties with Oceanic countries. In June 2022, the United States, along with Australia, Japan, New Zealand and the United Kingdom, unveiled the "Partners in the Blue Pacific" initiative, aimed at enhancing collaborative engagement in the region, including the Pacific Islands Forum.[5] In September, the United States signed the Declaration on US–Pacific Partnership as a result of the first-ever US–Pacific Islands Summit.[6]

Scholars and analysts have framed the escalating competition between major powers in the Pacific region as a "new Cold War" (Wesley-Smith & Smith, 2021; Pan & Clarke, 2022). Several leaders of Oceanic countries have expressed their unwillingness to take part in this geopolitical contest. These leaders underscore their Pacific agency and repeatedly stress their primary concerns, which are climate change and economic development (Goulding, 2015; Pacific Islands Forum Secretariat, 2022). In light of the New Pacific Diplomacy (Fry & Tarte, 2015), recent statements from the United States, Australia and certain related reports (e.g., USIP, 2022) have amended and underlined shared interests with the 2050 Strategy for the Blue Pacific Continent and Pacific regionalism, prioritizing the climate crisis. However, some commentators have questioned their Pacific turn, arguing that it is still driven by underlying strategic interests (Wesley-Smith & Finin, 2022) or that it has co-opted the Blue Pacific narrative just to serve the needs of the Indo-Pacific project (Blades, 2021; Kabutaulaka, 2022). A brief review of the competing discourses will aid in situating them within a regional framework.

Competing discourse and their critique: China as a threat versus China as an alternative

The existing literature addressing China's increasing presence in Oceania primarily approaches the issue from two distinct perspectives: "China as a threat" and "China as an alternative." The threat discourse, mainly framed by US and Australian commentators, is based on geopolitical, economic and military concerns, and cautions that China's ascent could undermine established international norms and practices. For example, an article titled "Dragon in Paradise: China's Rising Star in Oceania," by John Henderson and Benjamin Reilly, appeared in the *National Interest* in 2003. The authors warned of the "important long-term consequences" of China's growing role in Oceania, a concern that has been echoed by many commentators in subsequent years. In more recent years, for example, the US–China Economic and Security Review Commission highlighted that Beijing's growing influence in the region "could threaten the Compact of Free Association agreements […] over the long term." (Meick et al., 2018) The Rand Corporation, a US think tank, published a policy paper titled "America's Pacific Island Allies: The Freely Associated States and Chinese Influence" to illustrate how Chinese influence has security implications for US national interests and its relationships with allied countries (Grossman et al., 2019).

Several researchers (Windybank, 2005; Dobell, 2007; Shie, 2007; Brady & Henderson, 2010; Henderson & Reilly, 2013) have expressed concerns regarding three major aspects of this matter: Chinese military and security issues, Chinese loans and the potential for debt traps, and the risks of corruption and environmental hazards. There has been much discussion about China's possible plans to construct military infrastructure in the region,[7] as well as concerns about surveillance activities.[8] Since China and the Solomon Islands signed a security agreement in April 2022, there have been concerns surrounding the secret nature of the pact and the suspicion of possible military engagement in law enforcement or even the construction of a naval base in the future (Graham, 2022). Second, Chinese aid and concessional loans have been criticized for destabilizing Pacific countries, leading to corruption and violence, and trapping some countries in debt. Pryke (2020a, 2020b) points out that whereas a recent comprehensive analysis of debt statistics does not support the "debt trap diplomacy" narrative, there are still significant risks. Chinese investments in the extraction of natural resources from the region have also been linked to issues of domestic corruption and environmental hazards.[9]

The discourse of "China as an alternative" has been predominantly framed by academics, including Indigenous scholars, as well as some leaders of island countries (e.g., Wesley-Smith, 2007, 2013; Iati, 2016; Fry & Tarte, 2015a; Aqorau, 2021; Kabutaulaka 2015, 2021). It contends that China's rise presents Pacific Island states with a new alternative that was previously unavailable, and increases their leverage with the traditional powers in the region. These discussions often emphasize Oceanic-centered perspectives and agency. As Greg Fry (2019, p. 323) suggests, while the West perceives a threat to its interests in the Pacific at a time of global rivalry, the Pacific Island states have acquired greater bargaining power.[10] The China-Taiwan competition, which was once seen as a risk factor that could destabilize regional politics, is now presented as a circumstance through which island states can assert their sovereignty and exercise agency. For example, Sandra Tarte (2010, 2021) argues that the Fijian government has been proactive in forging a strategic partnership with China through its Look North policy. Island politicians increasingly frame China as a partner. Dame Meg Taylor (2021), the former secretary-general of the Pacific Islands Forum, stated that the region sought genuine partnerships with all actors "who shared the same vision with us" and "rejects the terms of the dilemma that presents the Pacific with a choice between a China alternative and our traditional partners."

The discourse of "China as an alternative" has gained traction in regional academic circles. While some scholars extol the potential benefits for states aligning themselves with China, others have cautioned that weak institutions in some Oceanian countries may expose them to vulnerability while "dancing with the dragon" (Kabutaulaka, 2019; Foukona, 2020; Aqorau, 2021). The recent signing of the China–Solomon Islands security pact and China's hastily proposed regional economic and security deal with Pacific Island allies have further raised concerns in the region. For example, FSM president David Panuelo has expressed apprehension that these moves could exacerbate tensions and draw Pacific Islands into "the epicenter of a future confrontation between these major powers," and that the predetermined joint communiqué may spark a new Cold War, even as he reaffirmed the nation's friendship with China.[11]

Moreover, the notion of China as an alternative often lacks a critical evaluation of Chinese rhetoric. For instance, as the world's second-largest economy and a growing military and political presence, China is hardly on the same footing as the Pacific Island countries, categorized as developing nations. China's imperial ambitions at home and abroad render the concept of South–South cooperation nothing more than diplomatic rhetoric. Additionally, the reality of China's "non-interference" in the Pacific also necessitates further examination. For instance, during the 2018 Pacific Islands Forum in Nauru, the head of the Chinese delegation demanded to speak first at the forum, ahead of the prime minister of Tuvalu who recognized Taiwan, and thus had a heated argument with the host country's president, Baron Waqa (SBSNews, 2018).[12] At the 2019 Asia-Pacific Economic Cooperation (APEC) meeting in Port Moresby, it is reported that China seemed to override the host country in various ways, such as lining the main roads of the city with Chinese flags before the event and barring international media from the meeting of eight Pacific leaders with President Xi (Rogin, 2018). The denial of media access happened again during Chinese foreign minister Wang Yi's 2022 visits to the region.[13]

Other incidents are also concerning. For example, Chinese officials engaged in obtrusive surveillance of Fijian guests who attended Taiwan's national day celebration at the Grand Pacific Hotel in Suva, and even assaulted a Taiwanese diplomat (BBC, 2020). FSM former president David Panuelo, in the March 2023 open letter mentioned earlier, accused China of bribery, threats and "political warfare." He listed several worrisome events, such as surveillance by a Chinese People's Liberation Army (PLA) intelligence officer working for the Chinese Embassy in Suva during the Pacific Islands Forum, secretly placing a surrogate to represent FSM in the Second China–PICs Political Dialogue, and interfering with FSM COVID-19 prevention and vaccine policy. He reminded others that Chinese ambition has impacted the sovereignty of Pacific Island nations.[14]

The Chinese claim of adopting a principle of "non-interference" is not entirely accurate. While China's aid is less conditional than that of OECD countries,[15] recent events suggest that China has indeed interfered in the domestic and international affairs of island countries. The imposition of its "One China Principle" on Beijing's diplomatic partners and the obstruction of attempts to build relationships with Taiwan are predominant. For example, Taiwan's representative offices in Fiji and Papua New Guinea were compelled to alter their names and downgrade their status in recent years.[16] Fiji withdrew its Trade and Tourism Representative Office in Taipei after a meeting between its prime minister and China's President Xi in 2017. After the Solomon Islands switched to Beijing in 2019, the Sogavare government began emphasizing the One China Principle to an extent that caused concern among citizens who adhere to the country's original foreign policy of "friends to all, enemies to none" since independence.[17] The government even went further in 2023 to disqualify Daniel Suidani, the former Malaita premier who was friendly to Taiwan, from the provincial assembly for not recognizing the One China Principle.[18] It is notable that scholars who support "China as an alternative" discourse often stress the importance of the sovereignty of island nations but seldom criticize China for interfering in their foreign policy decisions and blocking links with Taiwan. When island countries partner with China as a strategy against Western hegemony and interference, they have to deal with the ambitions of a new hegemon, which has become more explicit under President Xi and "wolf warrior diplomacy."

Finally, there is a gap in the existing literature. From earlier studies of diplomatic rivalry (Biddick, 1989) to the recent debate over "China as a threat" versus "China as an alternative," narratives often center on China and sideline Taiwan's interaction with Pacific Island countries. Taiwan's role in Oceania is a crucial topic that has been overlooked in previous studies, despite its significant contributions to the development of the region through trade, fisheries and aid. The economic engagement of Taiwan and China in Oceania follows different paths, with Taiwan having limited trade and investment, except in fisheries and some tourism, while China has extensive involvement in exports, imports and infrastructure projects under its BRI. Comparing these approaches can shed light on the structural differences and constraints in their relationships. However, with a few exceptions (e.g., Lai, 2007, Atkinson, 2010; Tubilewicz & Guilloux, 2011; D'Arcy, 2015; Dayant & Pryke, 2018; Marinaccio, 2019, 2021), there has been relatively little research into Taiwan's role and perspectives in the Pacific, not to mention the study of economic relationships and diplomatic recognition (Rich & Dahmer, 2022). This chapter presents a preliminary study of the implications of diplomatic relations with either Taiwan or China on economic development in Oceania's island countries.

General picture of economic development in Oceania

In order to study the economic development of Oceanian countries and examine their correlation with diplomatic recognition of Taiwan or China, we first consider the overarching economic and trade data of the region over the past two decades and compare their economic performances. Oceanian countries exhibit significant heterogeneity. Ranging in size and natural resources, these nations exhibit numerous regional disparities. Different economic strategies are implemented by these countries; many are endowed with rich maritime resources, thus relying heavily on fisheries, while some possess substantial terrestrial resources, benefiting from the export of cash crops, timber, gas and minerals.

In this study, we select 12 sovereign states from three subregions to encompass the spectrum of variations. Table 6.1 presents a summary of their general information, comprising their size, key economic sectors, aid and diplomatic relations with Taiwan and China. Figure 6.1 shows the fluctuations in their GDP per capita in the past 50 years.

In this research, we choose 12 sovereign states from the three subregions to cover the range of variations. Table 6.1 summarizes their general information, including their size, important economic sectors, aid and diplomatic relations with Taiwan and China in 2019.

Taiwan's overall trade with Oceania, although smaller than that of China, South Korea, Australia and Japan, amounted to US$1.2 billion in 2017 (see Table 6.2), exhibiting a similar level with the United States. However, Taiwan's trade primarily focuses on fisheries (particularly the Marshall Islands) and liquefied natural gas (LNG) (Papua New Guinea). The limited market size and transportation costs have impeded further engagement, despite the Taiwanese government's efforts to promote increased business activity. In contrast, China's economic involvement with the region has grown manifold over the past two decades, surpassing Australia as the principal trading partner for the majority of island nations. During the debates concerning the Solomon Islands' switch of diplomatic ties from Taiwan to China in 2019, the disparity in trade volumes was cited by the task force report mentioned earlier as a crucial argument supporting the decision. China imports substantial quantities of natural resources (such as logs, fish, minerals and gas) from the Pacific; concurrently, Chinese (state-owned or affiliated) corporations have invested in extractive industries (see discussions below). Additionally, Chinese merchants have dominated the retail business for decades and have particularly benefited from access to supply chains for cheaper Chinese-manufactured consumer products. They also have an advantage in capital levels and profit management. This dominance has led to local resentment, occasionally escalating into tension and riots, as evidenced by the recent disturbances in Honiara (November 2021) and previous conflicts in the Solomon Islands, as well as Tonga and Papua New Guinea.

Several scholars have employed the MIRAB model to evaluate Oceanian economies, concentrating on migration (MI), remittances (R), foreign aid (A), and public bureaucracy (B) (Bertram, 1999). While such a framework cannot be universally applied to the region, it is evident that a considerable portion of financial resources for island economies is derived from aid and loans provided by international donors and organizations. The per capita foreign aid rate in Oceania ranks among the highest globally (Dornan & Pryke, 2017: 386; Dayant, 2019). According to the database assembled by the Lowy Institute, the most prominent donor countries, in descending order, include the United States, Australia, China, Japan, New Zealand and Taiwan (see Table 6.3). A substantial proportion of China's pledged assistance is allocated as concessional loans for infrastructure, which have drawn criticism due to the potential debt risk they pose (particularly in the cases of Tonga,

Table 6.1 General information on Pacific countries in 2019

Country	Population[10]	GDP Per Capita[11] (USD)	Total Aid		Main Type of Aid	Industrial Sectors	Diplomatic Relations with Taiwan and China
			Committed	Spent			
Nauru	10,764	12,351	28.58	2.11	Grant	Agriculture Financial Service	Establish diplomatic ties with Taiwan in 1980 Switch to China in 2002 Switch to Taiwan in 2005
Tuvalu	11,655	4,036	59.63	17.49	Grant	Public Sector Fishing Agriculture	Establish diplomatic ties with Taiwan in 1979
Palau	18,001	15,572	9.45	5.98	Grant Loan	Tourism Agriculture Fishing	Establish diplomatic ties with Taiwan in 1999
Marshall Islands	58,791	4,038	52.92	7.8	Grant	Shipping Agriculture Fishing	Establish diplomatic ties with China in 1990 Switch to Taiwan in 1998
Tonga	104,497	4,865	82.45	17.03	Grant Loan	Tourism Construction Fishing	Establish diplomatic ties with Taiwan in 1972 Switch to China in 1998
Federated States of Micronesia	113,811	3,640	87.94	25.89	Grant Loan	Fishing Tourism Agriculture	Establish diplomatic ties with China in 1982
Kiribati	117,608	1,657	28.5	9.48	Grant Loan	Agriculture Fishing Tourism	Establish diplomatic ties with China in 1980 Switch to Taiwan in 2003 Switch to China in 2019

(*Continued*)

Table 6.1 (Continued)

Country	*Population10*	*GDP Per Capita11 (USD)*	*Total Aid*		*Main Type of Aid*	*Industrial Sectors*	*Diplomatic Relations with Taiwan and China*
			Committed	*Spent*			
Samoa	197,093	4,285	101.10	55.42	Grant Loan	Agriculture Fishing Tourism	Establish diplomatic tie with Taiwan in 1972 Switch to China in 1975
Vanuatu	299,882	3,023	14.63	66.57	Loan Grant	Agriculture Fishing Tourism	Establish diplomatic ties with China in 1982 (Briefly recognized Taiwan in 2004)
Solomon Islands	669,821	1,945	200.19	32.12	Grant Loan	Agriculture Fishing Forestry	Establish diplomatic ties with Taiwan in 1983 Switch to China in 2019
Fiji	889,955	6,185	42.69	58.55	Grant Loan	Tourism Fishing Manufacturing	Establish diplomatic ties with China in 1975
Papua New Guinea	8,776,119	2,845	990.01	317.22	Loan Grant	Agriculture Forestry Fishing	Establish diplomatic ties with China in 1976 (Briefly recognized Taiwan in 1999)

Source: World Bank, UN data, and Lowy Institute Pacific Aid Map. The Foreign Relation Yearbooks by Taiwan's Ministry of Foreign Affairs.

Note: In the "Main Aid Type" column, a cell where "Grant" is located above and "Loan" is below indicates that the country received a larger proportion of grants than loans from donors in 2019, and vice versa.

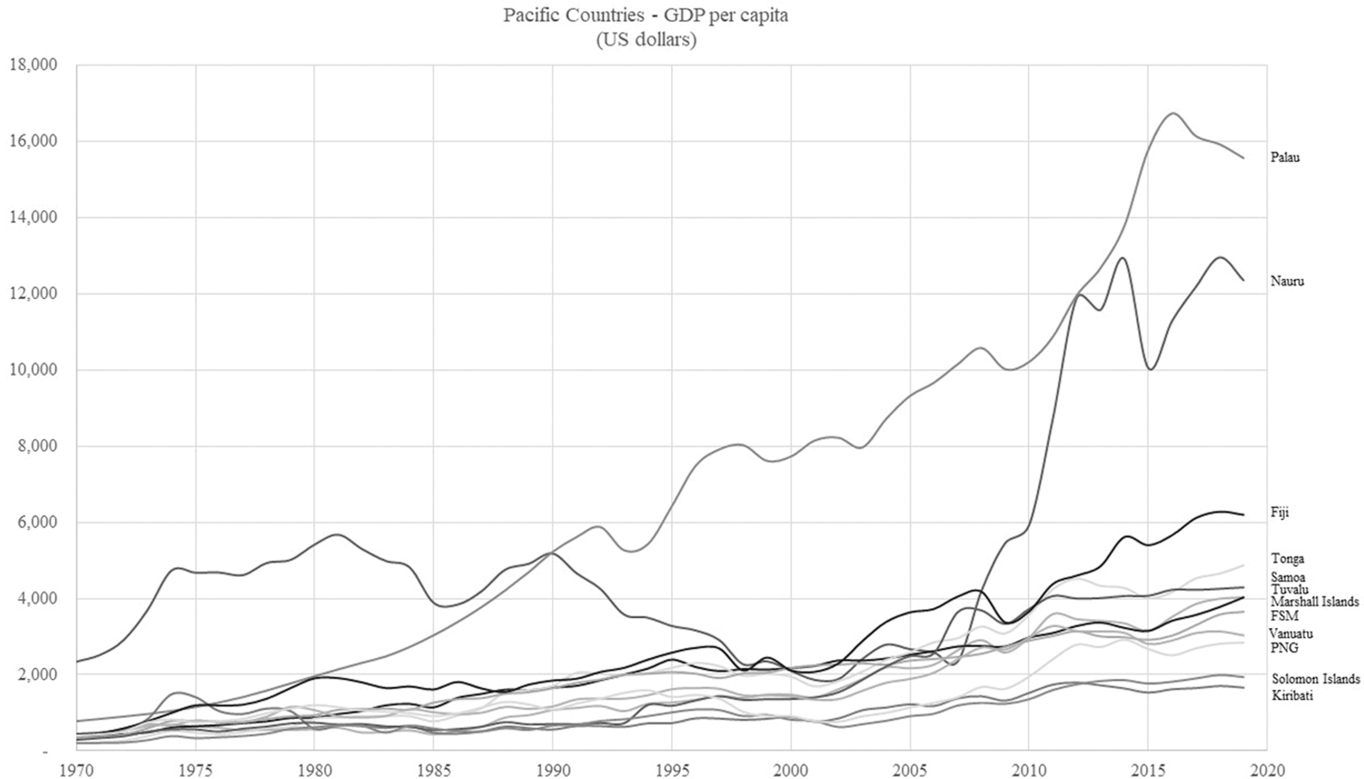


Figure 6.1 GDP per capita of Pacific countries (1970–2019).

Source: Compiled and analyzed by the authors based on information from UN data.

Table 6.2 Trade with Pacific Island countries (2017) (US$ millions)

	Taiwan	*China*	*United States*	*Australia*	*New Zealand*	*Japan*	*South Korea*	*France*
Nauru	0	1	2	38	4	7	5	0
Tuvalu	3	81	1	3	3	21	5	0
Palau	22	18	20	2	1	2	10	0
Marshall Islands	131	3,103	610	3	4	1,337	6,894	4
Tonga	5	29	20	13	52	9	4	3
Federated States of Micronesia	31	38	46	3	3	3	52	1
Kiribati	3	17	9	19	12	22	15	0
Samoa	2	66	43	39	83	14	32	3
Vanuatu	3	81	13	59	33	101	16	8
Solomon Islands	20	657	13	101	33	21	31	1
Fiji	57	386	288	460	394	115	217	13
Papua New Guinea	923	2,839	227	3,888	140	2,617	237	73
Total	1,200	7,278	1,292	4,628	762	4,269	7,518	106

Source: IHS Markit Global Trade Atlas, as cited in Ethan Meick, Michelle Ker, and Chan Han May, "China's Engagement in the Pacific Islands: Implications for the United States," U.S.-China Economic and Security Review Commission, June 14, 2018.

Papua New Guinea and Samoa). Taiwan has also been a significant aid donor in the Pacific. Besides the Ministry of Foreign Affairs, Taiwanese aid is primarily disbursed by its International Cooperation and Development Fund (TaiwanICDF) through cooperative projects.[19] Taiwan's long-term initiatives in Oceania focus on healthcare, agriculture (including horticulture, poultry and livestock, and aquaculture), and education. Additionally, it has supplied solar panels and extended assistance in energy efficiency.[20]

In response to China's heightened engagement in the region, the United States, Australia, New Zealand and Japan have begun to augment their contributions, potentially altering the aid landscape in the upcoming years. The Lowy Institute's recently updated Pacific Aid Map 2022 and associated reports indicate that China's aid to the region has been declining, partly attributed to COVID-19 and to the regression of its economy, with this trend potentially persisting for several years (Zhang, 2022). Meanwhile, Australia has undertaken reforms and increased its aid, continuing as the prominent contributor in the region (Figure 6.2). The impact of these changes in international aid on the geopolitics of Oceania is something to be observed in the future.

Findings using Difference-in-Differences analysis

In this section, we utilize the DID methodology to examine the economic growth of island nations that align with either Taiwan or China over a specified period

Table 6.3 Donor countries' cumulative aid in selected Pacific countries (1980–2021) (US$ millions)

Year	*Total Aid*	*Taiwan*	*China*	*United States*	*Australia*	*New Zealand*	*Japan*	*South Korea*	*France*
2008	Committed	N/A	182.40	170.86	1010	168.71	241.12	2.03	4.29
	Spent		91.55	187.96	722.66	123.91	166.93	2.73	13.00
2009	Committed	4.56	80.25	202.99	947.27	169.29	191.35	3.35	23.30
	Spent	22.28	81.46	215.92	702.78	116.43	129.83	1.97	26.52
2010	Committed	0.773	80.92	207.51	1030	141.51	226.85	9.56	22.95
	Spent	21.85	94.89	117.38	921.29	144.59	196.87	5.60	24.18
2011	Committed	50.77	414.64	320.13	1790	252.81	126.15	3.63	20.83
	Spent	46.82	145.34	233.45	1210	168.44	184.70	4.67	21.10
2012	Committed	101.74	197.21	203.77	921.73	166.61	223.15	3.45	22.63
	Spent	68.56	126.66	205.46	1140	197.11	152.39	3.92	22.92
2013	Committed	43.68	341.66	214.21	806.97	271.61	227.42	4.99	22.63
	Spent	38.12	255.80	216.30	1000	183.74	141.46	4.43	22.96
2014	Committed	61.56	252.46	277.47	1340	339.42	107.09	9.61	24.44
	Spent	59.24	206.05	181.48	972.18	231.39	128.04	7.01	24.58
2015	Committed	60.49	379.96	236.69	753.65	200.99	467.09	13.02	18.09
	Spent	60.90	274.09	130.51	922.57	204.40	129.10	9.30	18.11
2016	Committed	39.74	325.21	103.44	1060	254.52	136.70	9.27	12.63
	Spent	45.53	333.98	66.17	809.82	201.14	180.76	8.85	12.60
2017	Committed	38.48	4800	236.84	1000	267.94	261.88	6.97	15.47
	Spent	39.21	278.34	157.80	861.44	193.59	321.23	11.64	14.68
2018	Committed	38.61	265.83	294.45	920.80	222.81	191.96	18.70	40.42
	Spent	35.00	266.68	186.35	920.80	265.33	219.19	16.09	40.79
2019	Committed	44.63	1090	273.00	865.37	361.94	160.62	25.96	17.44
	Spent	38.81	185.76	140.07	864.60	253.92	221.04	15.93	17.53
2020	Committed	26.22	150.25	331.64	903.12	383.16	223.28	15.78	32.41
	Spent	17.88	168.33	258.30	847.73	241.06	328.60	15.52	21.58
2021	Committed	12.43	279.17	N/A	1380	N/A	N/A	N/A	N/A
	Spent	2.69	111.52		1310				

Source: Lowy Institute Pacific Aid Map.

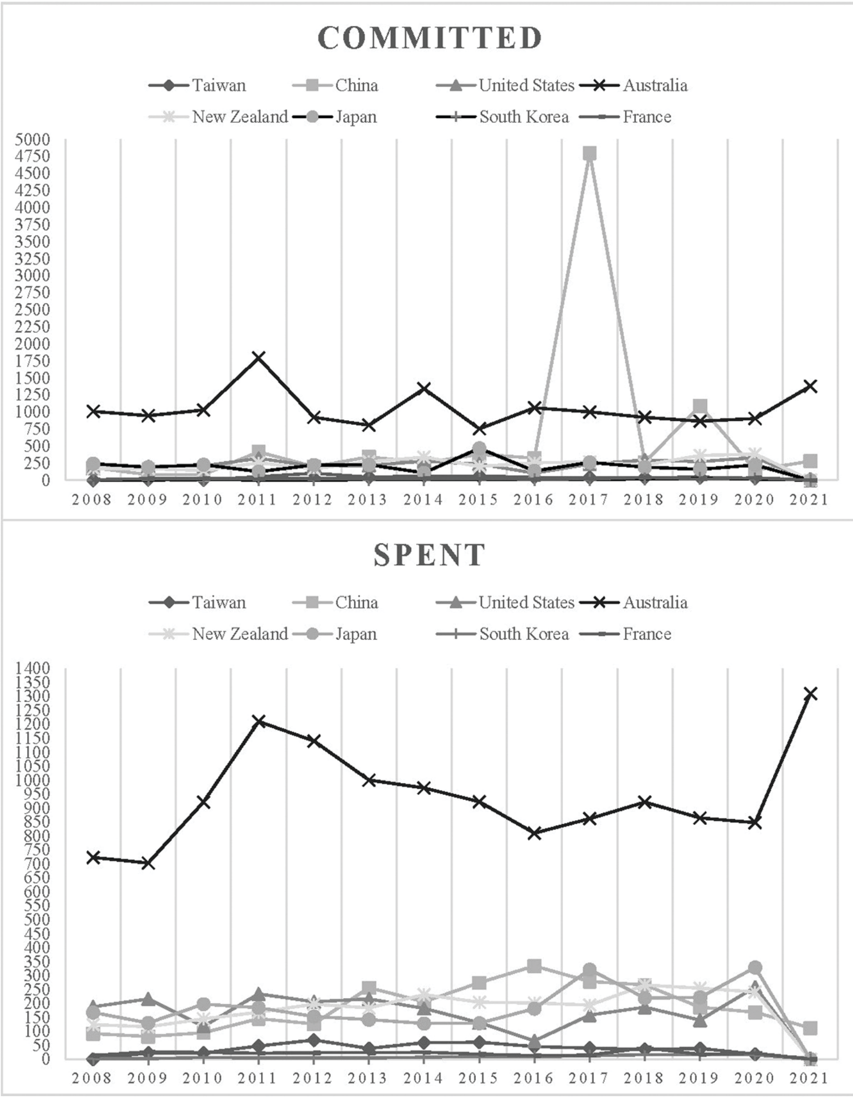


Figure 6.2 Donor countries' cumulative aid in selected Pacific countries (1980–2021) (US$ millions).

Source: Compiled and analyzed by the authors based on data from Lowy Institute Pacific Aid Map.

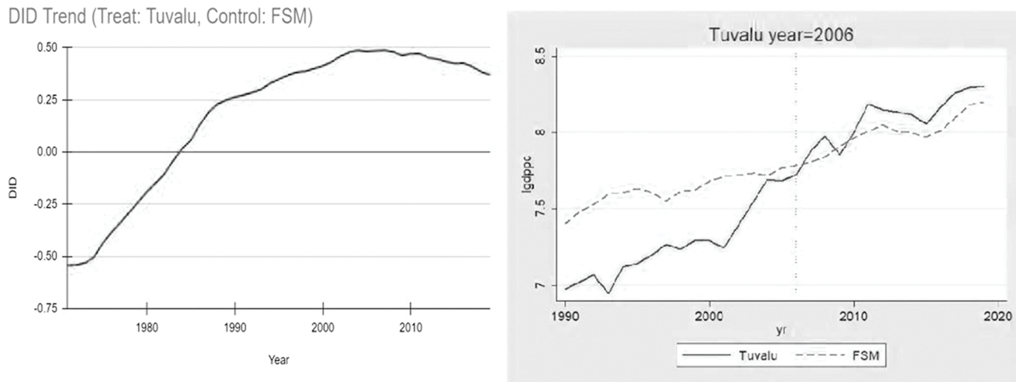
(see Chapter 3 for more information). By comparing the average change in GDP per capita over time for two countries siding with Taiwan versus China – one as the treated country and the other as the control country – we are able to calculate the impact of a specific event (the "break year") on their economic performance. We employ either the year of the switch in diplomatic relations when applicable or 2006 as the break year – the latter being the widely recognized year when China substantially expanded its economic presence and aid/loan involvement in the Pacific, following the inaugural China–Pacific Islands Economic Cooperation Forum and the visit of Premier Wen Jiabao. Here, 2006 is employed to indicate the "China impact."

We pair countries for comparison based on their similarities using three criteria: GDP per capita levels, population size and key economic sectors (see Table 6.1). Melanesian countries exhibit considerable variation in these criteria, rendering them not directly comparable in pairs. Some countries are outliers, making them unsuitable for paired comparisons (e.g., Palau in terms of GDP, and Nauru in terms of size). Countries experiencing traumatic events and GDP ruptures introduce too much noise into the data and are consequently excluded from our DID analysis.[21] For instance, prior to the Solomon Islands switch in diplomatic relations to China in September 2019, some contended that it was an economic choice, given China's status as its largest trading partner. However, whether the assumption is valid requires further examination, presenting an opportune context for DID comparison. Nevertheless, a few months after the transition, the world was confronted with COVID-19, rendering it unreasonable to attribute the country's economic decline in the following years to the shift in relations. Consequently, the case of the Solomon Islands (as well as Kiribati, which experienced a similar situation) is excluded from our DID analysis. Preliminary DID analysis reveals that the method works better for countries that maintain economic stability over an extended period (Tuvalu, Marshall Islands, Federated States of Micronesia, Tonga, Samoa and Kiribati, in part)

Key findings using Difference-in-Differences analysis

Among countries subjected to DID analysis, all except Samoa are small island states with a heavy reliance on fisheries. Our key findings are as follows:[22]

(1) Tuvalu and the FSM are long-term diplomatic partners of Taiwan (since 1979) and China (since 1982), respectively. Both are Micronesian countries, depending heavily on fisheries and fishing license fees. The FSM possesses a larger exclusive economic zone (EEZ) and has received substantial funding from the United States under the Compact of Free Association (COFA) agreement, seemingly placing it in a more advantageous position than Tuvalu. Nevertheless, since the mid-1980s, the growth of Tuvalu's GDP per capita has outperformed that of the FSM (Figure 6.3, DID trend > 0, using FSM as the control group). When employing 2006 as the break year, the DID data reveals that Tuvalu significantly outperformed the FSM (DID = 0.458, p is significant).



DIFFERENCE-IN-DIFFERENCES ESTIMATION RESULTS
Number of observations in the DIFF-IN-DIFF: **60**

	Before	After	
Control:	**16**	**14**	30
Treated:	**16**	**14**	30
	32	28	

Outcome var.	lgdppc	S. Err.	|t|	P>|t|
Before				
Control	7.625			
Treated	7.258			
Diff (T-C)	-0.367	0.062	-5.91	0.000***
After				
Control	7.988			
Treated	8.079			
Diff (T-C)	0.091	0.057	1.60	0.115
Diff-in-Diff	0.458	0.084	5.44	0.000***

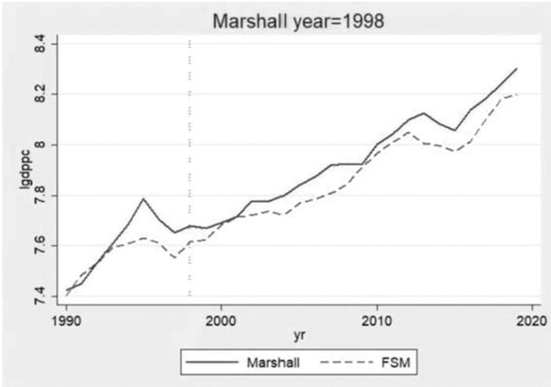
R-square: **0.81**

Figure 6.3 DID analysis: Tuvalu versus FSM.

However, the DID trend indicates that Tuvalu's growth decelerated (although it continued to outperform the FSM) after 2007. Two potential explanations for this phenomenon exist. Following the global financial crisis in 2007, cargo demands decreased, and numerous Tuvaluans lost their employment in the global shipping industry, subsequently affecting remittance values.[23] Another possibility is that China's aid to the FSM might have contributed to the FSM's economic growth to some extent, although DID analysis reveals that it was not sufficient and the FSM still lags behind Tuvalu in terms of economic change.

2) Pairing the Marshall Islands with the FSM to conduct a DID analysis reveals no statistically important difference. Marshall Islands is another country situated in Micronesia under COFA. After gaining independence, it initially established diplomatic relations with China in 1990 and later switched to Taiwan in 1998. We use both 1998 (the switch) and 2006 (China impact) as the break years, and the DID analysis shows no significant differences (see Figure 6.4).
3) We use Samoa as the treat country and compare it to Tuvalu and the Marshall Islands. Samoa has been a steadfast long-term partner of China in the region, with Beijing financing a substantial portion of its infrastructure. The country also has sizable migrant communities (particularly in New Zealand) and receives a healthy volume of remittances. Samoa has a considerably larger population than Tuvalu or the Marshall Islands (with 20K, 6K and 1K inhabitants, respectively), and all three nations have comparable GDPs per capita, ranging between \$4,000 and \$5,000 (nearly \$5,000 for Samoa, and nearly \$4,000 for the other two).

   Using 2006 as the break year, the DID analysis shows that Samoa outperformed both Tuvalu and the Marshall Islands in terms of economic growth (see Figure 6.5). It is plausible that aid from China during this period contributed to their development. However, following the peak in 2006, Samoa's economy decelerated and stagnated for a decade, and the DID trend indicates that Samoa's economic momentum is slowing down, drawing it closer to Tuvalu and the Marshall Islands. While China has persisted in investing resources in the country, the effect on the economy has been weak in recent years. After the change in government in 2021, the new Samoan prime minister canceled a wharf project proposed by China due to concerns about its economic viability.[24]
4) Tonga severed ties with Taiwan and established diplomatic relations with China in 1998. We pair it with Taiwan's allies Tuvalu and the Marshall Islands. Tonga's economy was more robust during the 1980s and 1990s. However, the gap narrowed after the turn of the century. Employing 1998 (the switch) as the break year, DID analysis reveals that Tonga did not perform as well as Tuvalu following the switch (DID = −0.327, p is significant), while its comparison with the Marshall Islands shows no difference (see Figure 6.6). Two factors, aside from the switch, may have contributed to the setback: Tonga was severely impacted by several cyclones (particularly Cyclone Gita in 2018) and



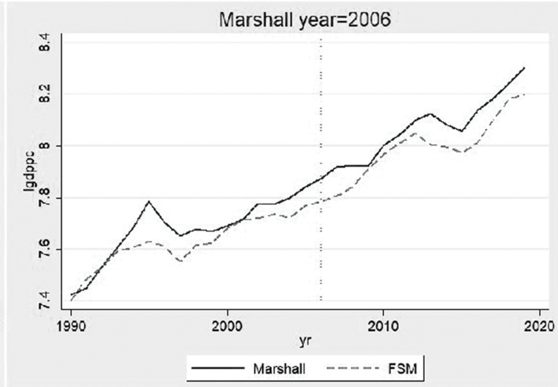
DIFFERENCE-IN-DIFFERENCES ESTIMATION RESULTS

Number of observations in the DIFF-IN-DIFF: **60**

	Before	After	
Control:	**8**	**22**	30
Treated:	**8**	**22**	30
	16	44	

Outcome var.	lgdppc	S. Err.	|t|	P>|t|
Before				
Control	7.552			
Treated	7.605			
Diff (T-C)	0.053	0.051	1.04	0.305
After				
Control	7.883			
Treated	7.948			
Diff (T-C)	0.065	0.056	1.16	0.249
Diff-in-Diff	0.013	0.076	0.17	0.869

R-square: **0.47**



DIFFERENCE-IN-DIFFERENCES ESTIMATION RESULTS

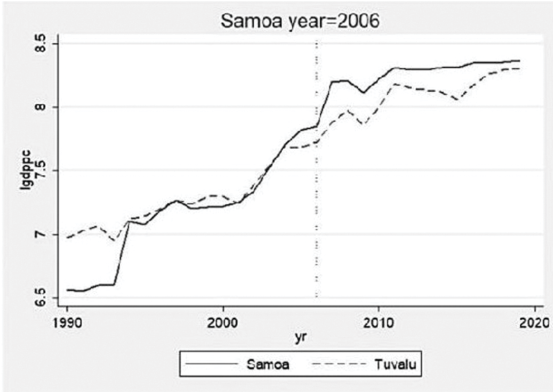
Number of observations in the DIFF-IN-DIFF: **60**

	Before	After	
Control:	**16**	**14**	30
Treated:	**16**	**14**	30
	32	28	

Outcome var.	lgdppc	S. Err.	|t|	P>|t|
Before				
Control	7.625			
Treated	7.674			
Diff (T-C)	0.049	0.039	1.25	0.216
After				
Control	7.988			
Treated	8.065			
Diff (T-C)	0.077	0.048	1.61	0.112
Diff-in-Diff	0.028	0.062	0.46	0.651

R-square: **0.74**

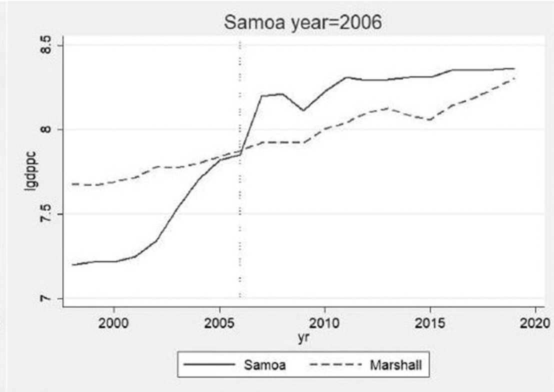
Figure 6.4 DID analysis: Marshall Islands versus FSM.




```
DIFFERENCE-IN-DIFFERENCES ESTIMATION RESULTS
Number of observations in the DIFF-IN-DIFF: 60
            Before          After
   Control: 16              14          30
   Treated: 16              14          30
            32              28
```

Outcome var.	lgdppc	S. Err.	|t|	P>|t|
Before				
Control	7.258			
Treated	7.138			
Diff (T-C)	-0.120	0.113	-1.06	0.293
After				
Control	8.079			
Treated	8.252			
Diff (T-C)	0.172	0.059	2.93	0.005***
Diff-in-Diff	0.293	0.128	2.29	0.026**

R-square: 0.79

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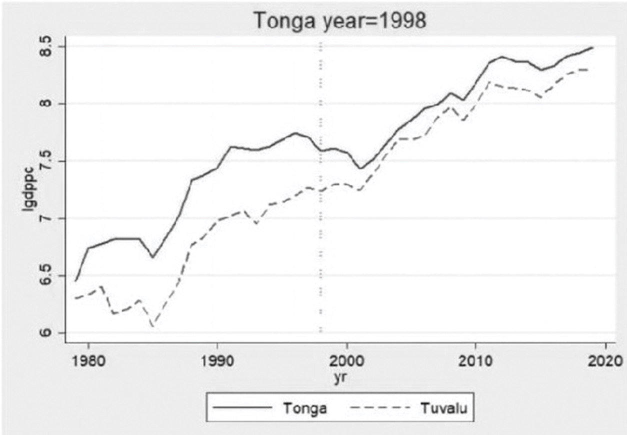
DIFFERENCE-IN-DIFFERENCES ESTIMATION RESULTS
Number of observations in the DIFF-IN-DIFF: 44
            Before          After
   Control: 8               14          22
   Treated: 8               14          22
            16              28
```

Outcome var.	lgdppc	S. Err.	|t|	P>|t|
Before				
Control	7.743			
Treated	7.409			
Diff (T-C)	-0.334	0.088	-3.81	0.000***
After				
Control	8.065			
Treated	8.252			
Diff (T-C)	0.187	0.051	3.68	0.001***
Diff-in-Diff	0.520	0.101	5.14	0.000***

R-square: 0.82

Figure 6.5 DID analysis: Samoa versus Tuvalu; Samoa versus Marshall Islands.



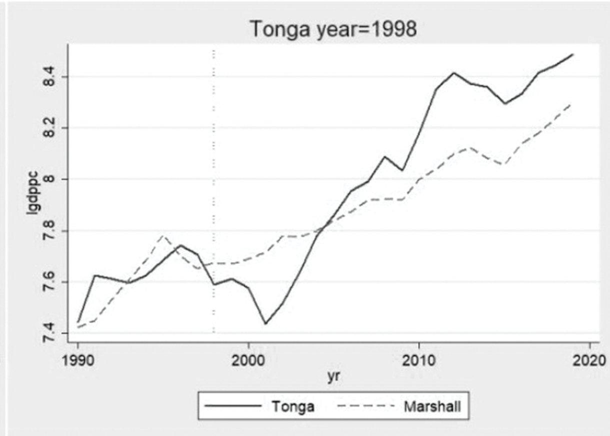
DIFFERENCE-IN-DIFFERENCES ESTIMATION RESULTS

Number of observations in the DIFF-IN-DIFF: **82**

	Before	After	
Control:	**19**	**22**	41
Treated:	**19**	**22**	41
	38	44	

Outcome var.	**lgdppc**	S. Err.	|t|	P>|t|
Before				
Control	**6.674**			
Treated	**7.194**			
Diff (T-C)	**0.519**	**0.138**	**3.77**	**0.000*** **
After				
Control	**7.840**			
Treated	**8.033**			
Diff (T-C)	**0.193**	**0.109**	**1.77**	**0.081***
Diff-in-Diff	**-0.327**	**0.176**	**1.86**	**0.067***

R-square: **0.66**



DIFFERENCE-IN-DIFFERENCES ESTIMATION RESULTS

Number of observations in the DIFF-IN-DIFF: **60**

	Before	After	
Control:	**8**	**22**	30
Treated:	**8**	**22**	30
	16	44	

Outcome var.	**lgdppc**	S. Err.	|t|	P>|t|
Before				
Control	**7.605**			
Treated	**7.629**			
Diff (T-C)	**0.024**	**0.054**	**0.46**	**0.650**
After				
Control	**7.948**			
Treated	**8.033**			
Diff (T-C)	**0.085**	**0.087**	**0.98**	**0.331**
Diff-in-Diff	**0.061**	**0.102**	**0.60**	**0.554**

R-square: **0.32**

Figure 6.6 DID analysis: Tonga versus Tuvalu.

experienced the 2006 riot in the capital city of Nuku'alofa. After a few years of decline post-1998, its economic growth is now converging with that of Tuvalu. Nevertheless, Tonga has high levels of debt, while Tuvalu has managed to maintain healthier national finances.

Summary

In this section, we employ DID analysis to compare the economic performance of several countries allied with Taiwan and China. We tentatively categorize the results as "Taiwan helps," "China helps," or "NA" (not applicable) (see Table 6.4). Among the comparisons, Taiwan's ally Tuvalu outperformed the FSM, and Tonga's growth after establishing diplomatic relations with China was not as strong as Tuvalu's; thus, we label these as "Taiwan helps." Taking 2006 as the break year, China's ally Samoa outperformed Taiwan's two allies, and we label them as "China helps." The other two comparisons yielded no statistically significant results and are labeled as "NA." However, such analysis is overly simplistic. First, in these pairings, Tuvalu and Samoa are the best-performing countries, which may not necessarily have a direct correlation with their diplomatic relations with Taiwan or China. Second, when incorporating DID trend observations instead of solely examining break year analysis, the economic performance of multiple groups becomes increasingly convergent in recent year.

The DID analysis yields mixed results. As numerous factors can influence changes in economic performance, it is not possible to definitively conclude that maintaining diplomatic relations with Taiwan or China has a decisive impact. Furthermore, our study compares only GDP per capita, while economic performance cannot be solely judged by this indicator. This limitation should be taken into consideration, and the results should not be overinterpreted. Nevertheless, we can still engage in reasonable discussion based on the current analysis and explore the extent to which diplomatic relations with China or Taiwan have contributed to the economic development of these island states.

The above pairs of comparisons have shown that in the case of small island economies, aligning with Taiwan is an economically reasonable choice. This alignment may provide some economic support, and at the very least, it does not place the country in a disadvantageous position relative to neighbors that maintain relations

Table 6.4 Simplified results of DID analysis

Pairs	*Taiwan or China helps*
Tuvalu vs. FSM	Taiwan helps
Marshall Islands vs. FSM	N/A
Samoa vs. Tuvalu	China helps
Samoa vs. Marshall Islands	China helps
Tonga vs. Tuvalu	Taiwan helps
Tonga vs. Marshall Islands	N/A

with China. On the other hand, China's aid and loans might boost the economy for a period (such as in the example of Samoa, and perhaps Tonga), but the gains might not be enduring, and the assistance may not be as effective as anticipated (e.g., FSM). However, Tonga and Samoa are currently grappling with substantial debts owed to China, while Taiwan's partners do not bear such burdens.

Important economic activities in relation to diplomatic relations

Fisheries

As Oceanian countries achieved independence in the 1970s, the pursuit of economic interests within their EEZs and the exercise of maritime jurisdiction became associated with the concept of self-determination (Aqorau, 2015). In order to effectively manage fishery resources and curb illegal fishing, Oceanian countries signed agreements with various nations and established regional and subregional fishery agreements and organizations to promote the fair and sustainable utilization of marine resources (see Figure 6.7). The 1982 Nauru Agreement emerged as a highly influential model in the region.[25]

In 2007, the Parties to the Nauru Agreement (PNA) adopted a Vessel Day Scheme (VDS) for the management of purse seine fishing and open water fishing

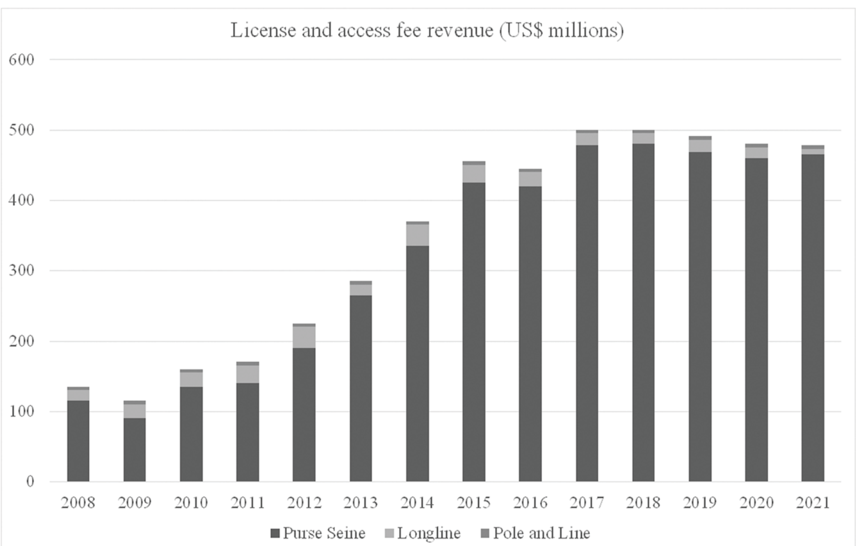


Figure 6.7 Revenues of Pacific countries from fishing licenses and access fees (2008–2019).

Source: Adapted from Tuna fishery report card 2022, FFA and SPC. 2023. The figure has been redrawn by the authors for the purpose of this study.

in the Western and Central Pacific Ocean, implementing it in 2012 under the Palau Agreement (Aqorau, 2009).[26] The scheme mandates that vessels purchase days to fish in PNA states' waters, thereby bolstering the group's standing as a regional fishery organization and enhancing its geopolitical influence.

Taiwan has been an important player in the Oceanian fisheries sector since the 1970s. Its role in the industry has helped stimulate economic development while at the same time extending Taiwan's diplomatic outreach. For example, according to Marinaccio (2019), Tuvalu decided to establish diplomatic ties with Taiwan in order to manage its fishing industry. In 2004, Taiwan not only participated in the Western and Central Pacific Fisheries Commission (WCPFC) as a founding member, but some Taiwanese companies also cooperated with Pacific countries to establish fishing facilities, increasing employment as well as other benefits. FCF Co, Ltd., for instance, established fishery bases in Guam and Fiji in the 1980s. In addition, in 2000, Taiwan worked with the government of Papua New Guinea to establish the South Seas Tuna Corporation (SSTC). The Taiwanese enterprise Koo's Fishing Co., Ltd. also initiated a localization company project in the Marshall Islands in 2000. According to 2020 statistics from the WCPFC, Taiwan's take ranked third, with 216,000 metric tons of albacore, bigeye, skipjack and yellowfin in the Western and Central Pacific area, behind only Japan and South Korea (see Figure 6.8).

China by contrast is a new player in the fisheries sector in Oceania. Starting from 1988, Chinese fishing boats started to establish oceanic tuna fisheries and expanded to account for a quarter of the tuna catch in the region. It now has the largest fishing fleet in the region with many of its vessels subsidized by the government. Some politicians in the FSM have argued that "the small size of the FSM economy, the Chinese demand for its fish and the proximity of FSM to the huge Chinese market" mean that China can have a powerful impact on "transforming the economic fortunes of FSM overnight for very little cost to itself" (Puas & D'Arcy, 2021, pp. 291–292).

Changes in the geopolitical situation might impact on the functioning of regional fisheries management organizations and agreements. In 2021, for instance, the government of Kiribati announced that it would open up the Phoenix Islands Protected Area to commercial fishing, a move purportedly instigated by China (Herr, 2021). In this way, it has been claimed, China could gain preferred access to abundant tuna resources as well as a militarily strategic location in Kiribati. Climate change is another factor affecting marine ecology. For example, more and more fish are moving into the open sea. According to research (Bell et al., 2021), the total biomass of skipjack, yellowfin and bigeye tuna in the waters of the ten Pacific island states could decline by an average of 13% by 2050.

Over the past two decades Taiwan has implemented cooperation projects with its Pacific partners to assist in enhancing the capabilities of fisheries and toward the goal of more sustainable management of marine resources. For instance, since 2010, Taiwan has launched the Regional Fishery Observer Training Program to train Pacific representatives to become observers and contribute to sustainable fisheries that comply with the regulations of regional organizations. The project could also increase employment opportunities and the growth of remittances. In

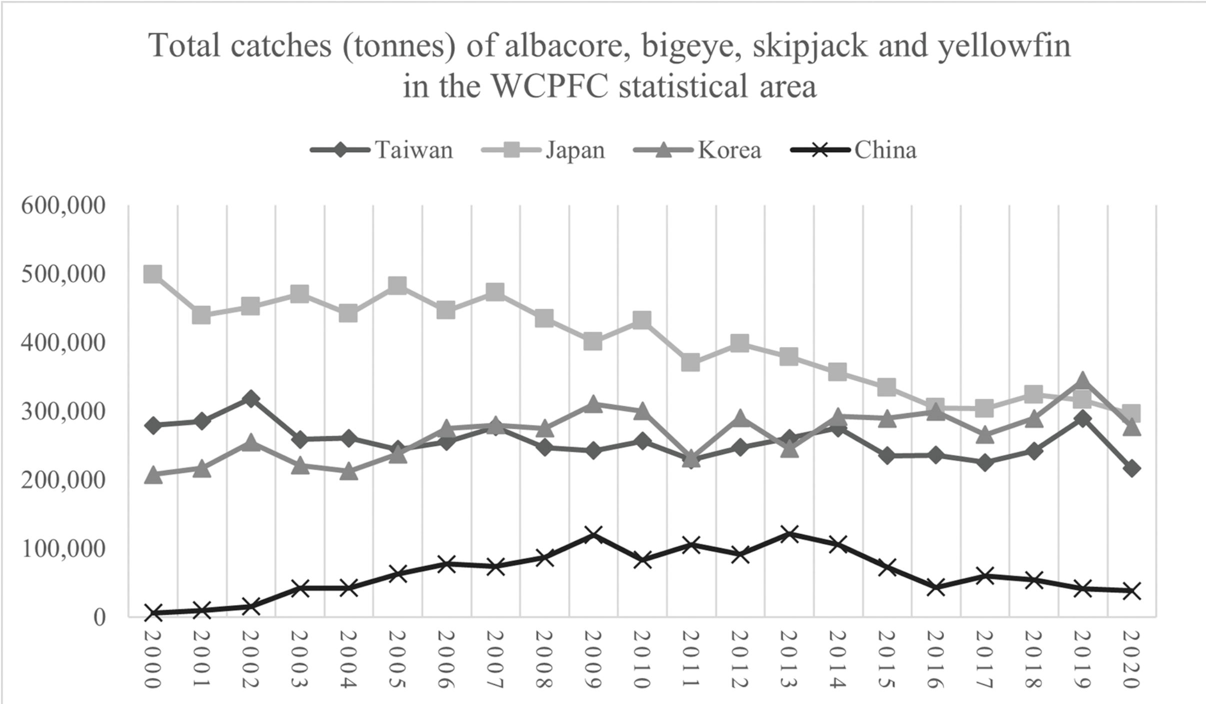


Figure 6.8 Total catch (tonnes) by Taiwan of albacore, bigeye, skipjack and yellowfin in the WCPFC Statistical Area.

Source: Compiled and analyzed by the authors based on data from WCPFC.

addition, Taiwan has helped some Pacific countries set up sustainable fish farming operations. The Taiwan Technical Mission has cooperated with Kiribati since 2004 to revitalize fish farming (artificial breeding of milkfish). Taiwan could still do more, with help needed for the onshore construction of fishing facilities. It could also hire more workers from the Pacific islands and improve their labor conditions and regulate Taiwanese vessels toward sustainable fishing.

Logging and mining

Natural resource extraction has played an important role in the economic development of some Oceanic countries. Forestry resources, including timber exports and agro-forestry (e.g., oil palm, sugar, bioethanol), contribute significantly to GDP, particularly in the Melanesian countries. In both the Solomon Islands and Papua New Guinea, ethnic Chinese have dominated the industry (Nelson, 2010; Matbob, 2021), especially Malaysians of Chinese descent (Filer, 2013a, 2013b).[27] There is no evidence that they receive financial support from the Chinese state or state-owned enterprises; however, they may have contributed to China becoming the monopoly export market (Filer 2013a, p. 322). Many islanders have noted their significant influence in domestic politics (e.g., D'Arcy et al., 2014), and some have speculated about the role they play in the diplomatic field. Chinese investment in mining has garnered increased attention, which will be the focus of this section (Table 6.5).

In discussing how exploration projects shape national economies, Nauru provides the most dramatic example, when the ups and downs of phosphate production dominate its economic performance and the well-being of its people (Connell, 2006; Pollock, 2014). Phosphate mining was Nauru's primary source of income in the 1970s and 1980s, in the early years after independence, and it boasted one of the highest GDPs per capita in the world. The Nauru government utilized the revenue for international investments, but many ended in failure. As Nauru's phosphate revenue declined in the1990s, government expenditures began to surpass revenue. Mining nearly ceased in the first few years of the twenty-first century, and the country switched diplomatic relations from Taiwan to China in 2002. However, the economy did not seem to benefit from the change, and Nauru switched ties back to Taiwan in 2005. In 2007, with investments from New Zealand and Australia, Nauru resumed secondary phosphate mining. However, since the output and scale of the operations were not as extensive as before, aid (especially from Australia and Taiwan), fisheries and revenue from an Australian detention center account for a significant portion of national income.

Papua New Guinea (PNG) possesses the richest resources in the region, with its economic development relying heavily on extraction industries such as agriculture, forestry and mining. Minerals are its largest exports, facilitating the growth of other industries like construction. Gold remains the most important metal export, accounting for over three-quarters of revenue. Furthermore, the Ramu nickel mine and, more recently, LNG have become essential pillars of the Papua New Guinea economy. In 2017, for example, LNG production accounted for 16% of GDP.

Table 6.5 Chinese mining investments in the Pacific

Country	*Metals*	*Operating Company/ Project*	*Notes*
PNG	Gold & Silver	The Porgera gold mine	Jointly owned by the Chinese Zijin Mining Group and the Barrick Gold Corp
	Nickel & Cobalt:	The MCC Ramu Nickel Cobalt project	Majority owned and operated by China Metallurgical Corporation
Solomon Islands	Gold & Silver	The Gold Ridge gold mine	Wanguo International Mining Group, China Railway Group Ltd.
	Bauxite	Asia Pacific Investment and Development Ltd. (APID)	Registered in Hong Kong
	Nickel	Axiom Mining	Australian mining and exploration company (incorporated in Hong Kong)
Fiji	Gold & Silver	Vatukoula Gold Mines plc.	Majority owned by Zhongrun Resources Investment Corporation
	Bauxite	Xinfa Aurum Explorations Ltd.	Shandong Xinfa Aluminum and Electricity group. 1st Chinese company to obtain mining license, 2011
	Cement	Pacific Cement Ltd. (PCL)	Majority owned by Fijian Holding Ltd. Corp
		Tengy Cement Company Ltd.	A China investment company
New Caledonia	Nickle	The Chinese Caledonian Mining Company	Joint venture of the Chinese Jinchuan Group and the Société Minière du Sud Pacifique.

Source: USGS Mineral Yearbook, Gessler (2017).

The huge revenues from Papua New Guinea's mining industry attract investments from other countries and transnational corporations. According to the USGS 2016 Minerals Yearbook, most mining companies, except for the government-owned OK Tedi Mining Ltd., are owned and operated by international companies. These include firms whose headquarters are located in Australia, the United Kingdom, South Africa, Japan, Singapore and China. In March 2005, the Chinese Metallurgical Construction (Group) Corporation, a large state-owned construction and operating company, acquired a majority stake in the Ramu nickel and cobalt mine. In 2006, the Papua New Guinea government signed an agreement allowing the China Exploration and Engineering Bureau to prospect for gold, copper, chromite and magnesium further. The Zijin Mining Group, a Chinese company, owns a significant share of the Pogera gold mine in the Enga region. Some projects are still in the planning stages, such as the Frieda River Copper project, primarily owned by PanAust, a subsidiary of Guandong Rising Asset Management (Gessler, 2017).

In terms of LNG cooperation, in 2009, China Petroleum & Chemical Corporation agreed to purchase 2 million tons of LNG annually from the country. Taiwan began purchasing LNG in 2013. In 2017, Taiwan was the fifth-largest importer of LNG from PNG at about 17%, and LNG would subsequently account for 9% of Taiwan's LNG imports in 2022.[28]

PNG has a long history of resource extraction, with China being a latecomer. The situation is different in the Solomon Islands and Fiji. The Gold Ridge gold mine in the Solomon Islands began operations in 1998, accounting for over 20% of the country's GDP at one point. Initially owned by the Australian company St Barbara, the mine ceased operations in 2014 due to security threats and flooding. It was later sold to the landowner group Gold Ridge Community Ltd., which sought investment from the Australian-based Chinese company AXF Resources and additional investment from the Chinese company Wanguo International Mining in 2017.[29] Soon after the Solomon Islands switched diplomatic recognition from Taiwan to China in September 2019, it was revealed that the state-owned China Railway Group Ltd. had signed a deal with Gold Ridge Mining Ltd. (GRML) to construct and lease a railway and mining service station.[30]

The government of the Solomon Islands hopes to reopen the gold mines and develop other resources, such as bauxite and nickel, to diversify its economy and become less dependent on the logging industry.[31] However, several controversies have arisen. In 2019, ships carrying bauxite from the Bintan Mining Company (Hong Kong-based, owned by Indonesian Chinese) spilled heavy fuel around the island of Rennell, the location of a UNESCO World Heritage site.[32] The Australian-owned company Axiom Mining encountered licensing and regulation problems after it started operations in Isabel Province in the same year. It accused the government of accepting bribes and favoring its replacement by Bintan, which occurred shortly after the country switched diplomatic recognition to China.[33]

Some mining companies, like Asia Pacific Investment Development Ltd. (APID), were initially logging companies. APID is involved in bauxite mining on Rennell.[34] The proposal for a nickel mine at Choiseul was made by the Solomon Islands Mining Company Ltd. (SIMCL), owned by Filipino-Chinese logger Johnny Sy. Another logger, Garry Cheah, used to operate the Solomon Islands Resources Company Ltd. (SIRCL), which carried out nickel prospecting in Isabel. SIRCL's owners, the Hong Kong-based investor New Origin Resource Company Ltd., later sold it to another Chinese enterprise, Hangzhou Gowin Mineral Product Ltd.[35]

The mineral extraction industry in Fiji has had a slow start and is dominated by investment from China.[36] The major mineral commodity export from the country has been gold. Vatukoula Gold Mines was initially owned and operated by a UK-registered company (Banks, 2013), but China's Zhongrun International increased its holding to around 66% in 2014 (USGS Mineral 2015 Yearbook). Bauxite and cement mining operations in Fiji are run and majority-owned by Chinese companies Xinfa, Tengy and PCL.

Logging and mining companies have played important roles in these countries (Bainton & Skrzypek, 2021; Allen, 2018). Solomon Islands Member of Parliament Peter Kenilorea Jr. pointed out that the 2022 riots in Honiara were fueled by long-term discontent with the corrupt relationship between the government and foreign logging and mining companies.[37] Chinese engagement with the mining industry in Melanesia has been growing, with Chinese companies at times replacing earlier Australian investors. While some Chinese companies are run by ethnic Chinese loggers, there has been deeper involvement by mainland Chinese companies (private or state-owned), which now dominate the newly developed mineral industries in the Solomon Islands and Fiji. These investments have coincided with the islands' development of closer relations with Beijing. Capital in PNG is more diversified, with international companies from several countries involved in the mining industry. It is worth noting that China has approached several Pacific countries about participation in future projects to explore deep-sea mining, although these projects are still in the planning stages (Zhang, 2018) (see Figures 6.9, 6.10 and 6.11).

Tourism

In 2019, Oceania received 2.9 million visitors, generating US$4 billion in visitor spending. For some Pacific countries and territories, tourism receipts account for a large share of their GDP. According to the 2018 Annual South Pacific Tourism Organization (SPTO) tourism overview, tourism in the Cook Islands reached 66% of GDP, Fiji's tourism sector generated over 35% of GDP, and Vanuatu's tourism contribution to GDP was 48.2%.

Furthermore, direct employment in the tourism sector of the above three countries totaled 90,821 jobs, not including those working in support services and related businesses.[38] Across the region, the tourism industry has become an essential ingredient in the islands' cultures, cuisines, traditional artifacts and environments. Consequently, tourism is a central industry, part of everyday life, and the primary economic driver in Oceania.

Chinese tourists and investment and tourism development projects have brought new challenges to the Pacific in recent years. For instance, in Vanuatu, Chinese investors have ventured into real estate, including tourist enterprises, such as the famous Cascades waterfall, which was sold to Blue Spring, a Chinese company that also runs tour packages. In the Commonwealth of the Northern Marianas Islands (CNMI), Chinese investment in casinos and resorts has brought in many Chinese tourists, but it has also raised concerns over money laundering and the close proximity of some developments to land leased to the US Department of Defense (Campbell, 2018).[39] In the FSM, Chinese investors from the company ETG proposed the construction of a 10,000-room mega-resort and casino complex

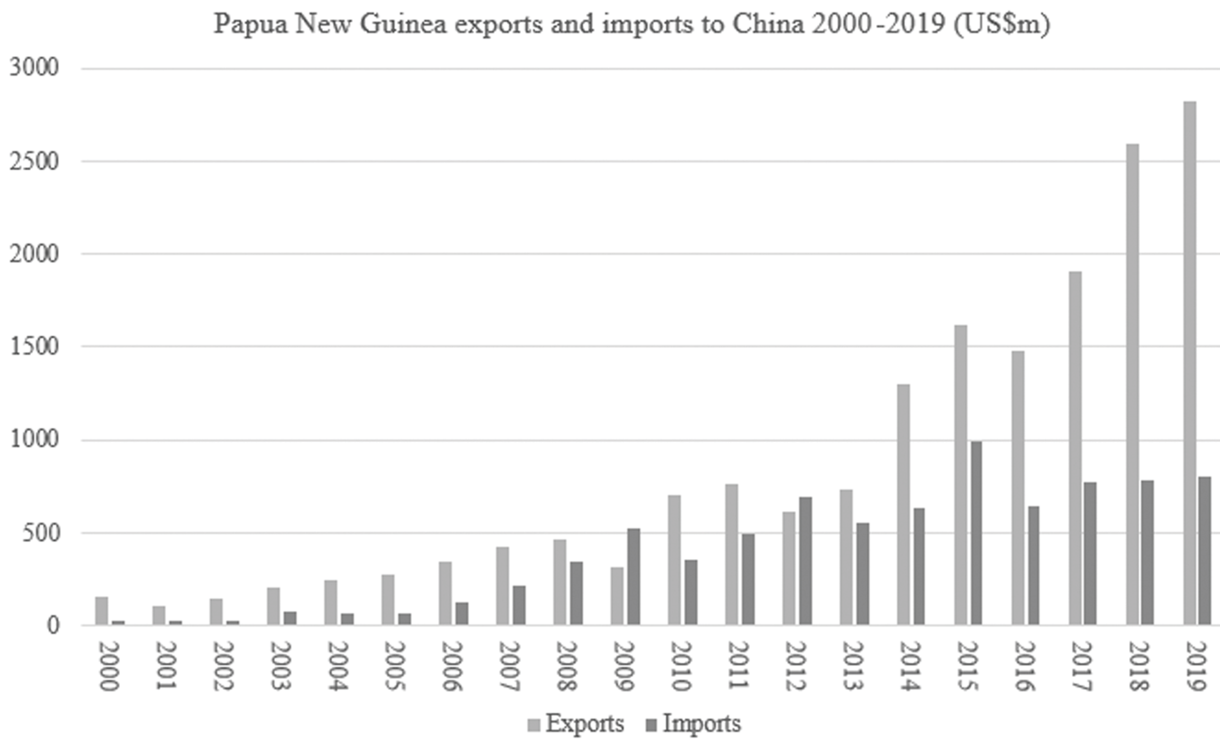


Figure 6.9 Papua New Guinea exports and imports to China 2000–2019 (US$ millions).

Source: Compiled and analyzed by the authors based on data from The Observatory of Economic Complexity.

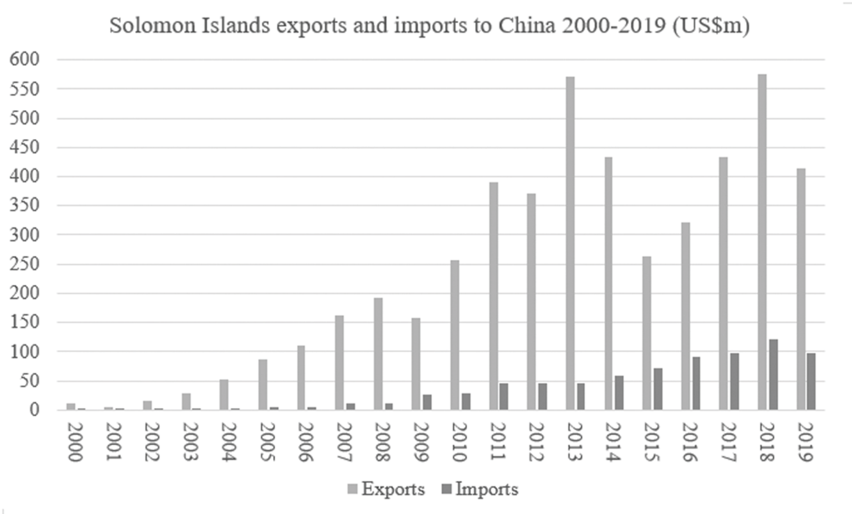


Figure 6.10 Solomon Islands exports and imports to China 2000–2019 (US$ millions).

Source: Compiled and analyzed by the authors based on data from The Observatory of Economic Complexity.

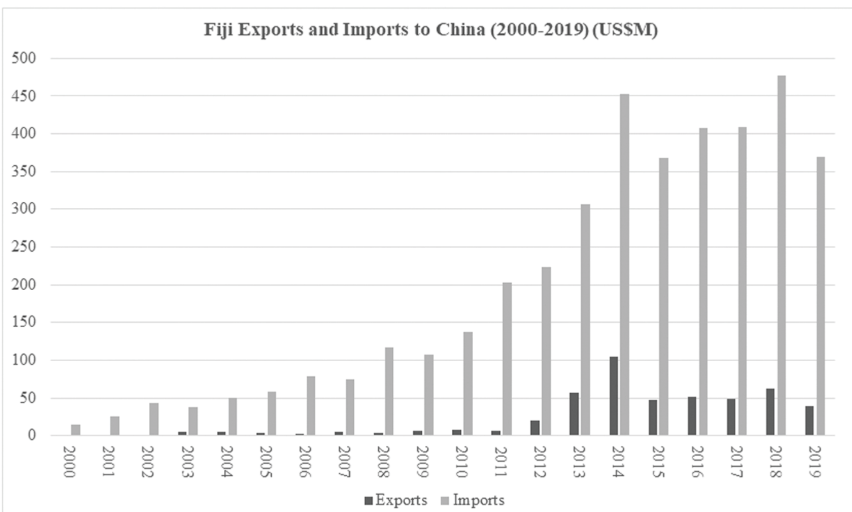


Figure 6.11 Fiji exports and imports to China 2000–2019 (US$ millions).

Source: Compiled and analyzed by the authors based on data from The Observatory of Economic Complexity.

on the island of Yap. This controversial proposal, which was supported by Yap's governor, Tony Ganngiyan, has caused division among local politicians and islanders (Bohane, 2016; Huang, 2017).

In the Republic of the Marshall Islands, the mayor of Rongelap, James Matayoshi, proposed plans in 2018 for the atoll to become a special administrative province with loose visa and tax requirements, opening the island to foreign investors and promoting the construction of casinos and direct flights from China (Smith, 2018). The proposal has caused turbulence in domestic politics. The then-president, Hilda Heine, believed her criticism of the project led to votes of no confidence against her in parliament (The Marshalls Islands Journal, 2020). Subsequently in 2021, a Chinese couple were arrested and accused by US prosecutors of offering bribes to Marshall Islands officials for the scheme.[40]

These developments illustrate the potential challenges and controversies that come with increased Chinese tourism and investment in the Pacific region. The case of Palau's tourism development offers an alternative perspective for consideration. After World War II, Palau was under the governance of the US-administered UN Trust Territory of the Pacific Islands (TTPI).[41] Upon independence in 1994, Palau signed the COFA agreement with the United States. World Bank data from 2019 indicates an estimated GDP per capita of $14,907, the highest among independent sovereignties in Oceania.[42] Kuniwo Nakamura, the President of the Republic of Palau from 1992 to 2000, made the decision to formalize an official diplomatic agreement with Taiwan in 1999 (Mita, 2010). According to the Lowy Institute, in 2021, Taiwan was ranked as Palau's second-largest aid donor after Japan.[43]

Tourism accounted for 43% of Palau's GDP in 2018. Prior to 2010, its tourism industry was predominantly fueled by scuba divers from Japan, Korea and Taiwan. Visitors from Taiwan and Japan constituted approximately 70% of the total from 2000 to 2010 (Yamashita, 2000; Harwit 2000). However, it is estimated that 85% of revenues are directed to foreign operators from Japan and Taiwan.

In 2010, Palau opened its tourism sector to China, leading to a dramatic surge in the number of Chinese tourists (see Figure 6.12). In 2010, Chinese tourists constituted less than 2% of all visitors, but this number grew to more than 54% by 2016 (Lyons, 2018).[44] However, Chinese tourists visiting Palau traveled in package tour groups and prepaid for their entire itinerary, resulting in lower in-country spending. As Palau became heavily reliant on a single market, in November 2017, the Chinese government took steps to block Palau as a tourist destination, removing it from its list of countries with Approved Destination Status (ADS).[45] The consequences were dramatic, as the number of Chinese tourists to Palau plummeted. Several media reports suggested that China aimed to pressure Palau to reconsider its diplomatic relations with Taiwan (Master, 2018; Cameron, 2021)

Former President of Palau, Tommy Remengesau, explained in an interview that Palau adapted to the Chinese embargo by focusing on attracting higher-spending visitors rather than promoting mass tourism, which had been detrimental to the environment (Master, 2018). His message was clear: the Chinese ban would not harm the economy but instead provide Palau with an opportunity to diversify its tourism

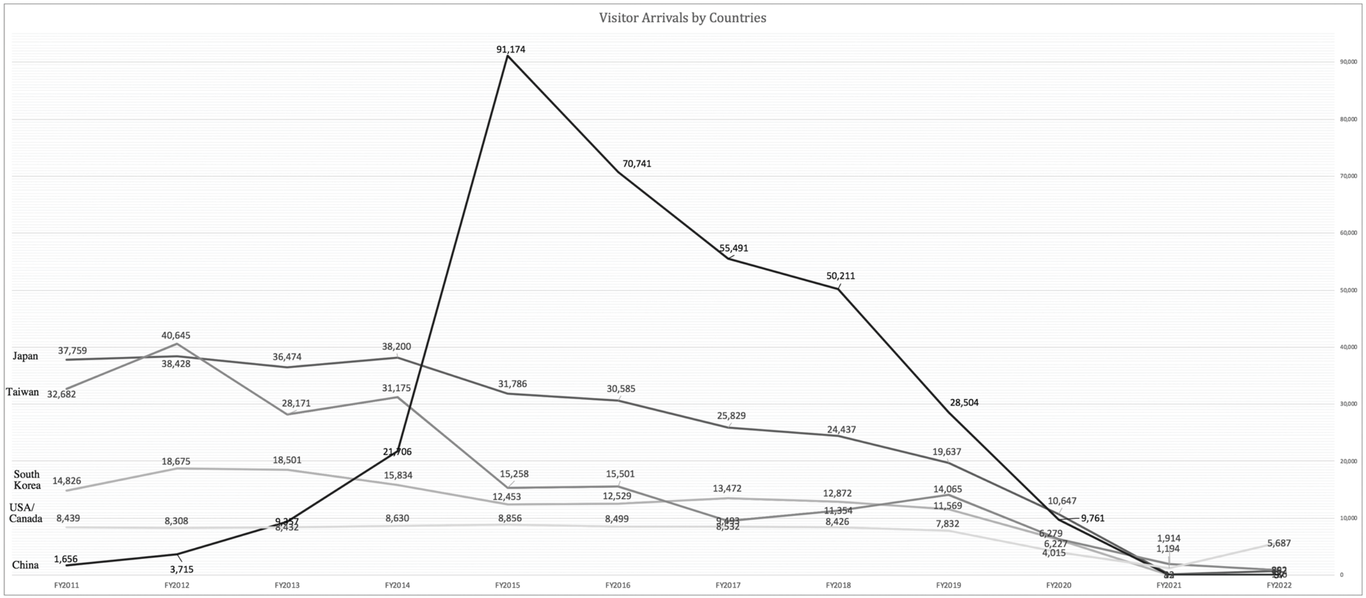


Figure 6.12 Tourists to Palau (from 2011–2022).

Source: Compiled and analyzed by the authors based on data from Bureau of Immigration, Republic of Palau.

industry. Palau government had launched a framework for a new responsible tourism, outlining Palau's vision for the industry since 2016. The country aims for diverse, high-value and low-impact tourism (Palau Responsible Tourism Policy Framework, 2016).

Palau has demonstrated a strong commitment to safeguarding its culture and environment. In 1979, 75% of Palauans voted for a nuclear-free constitution, the first of its kind in the world (Sumang, 1998). With respect to marine management, Palau passed the Palau National Marine Sanctuary Act in 2015, creating the world's sixth-largest fully protected area. In 2017, Palau became the first nation to adopt an eco-promise, known as the Palau Pledge, aimed at tackling tourism-related environmental damage (Medel, 2020). The Palau Pledge incorporates both traditional and contemporary elements, including the cultural concept of "BUL," which underlines respect for the ecosystem (Ueki, 2000; Pollack, 2018).

Tourism has become a means for Palau to assert its voice and sovereignty amid challenges from global powers. During the COVID-19 period, Palau and Taiwan established a travel corridor in March 2021, allowing Taiwanese tourists to visit without undergoing quarantine upon arrival. Palau's experience offers valuable insights into how Taiwan can deepen its relations with Oceanian countries through their respective visions of development

Conclusion

This chapter explores the implications of diplomatic alignment with Taiwan or China in relation to economic development of island nations in the region. This research contributes to the studies of geopolitics and international relations in Oceania in three aspects. First, China's recent rise in Oceania has received much attention and discussion, but Taiwan's role has been largely understudied and sidelined. One of the purposes of China's expansion in Oceania is to diminish Taiwan's international space. However, most research, under the framework of great powers rivalry, focuses on the diplomatic initiatives of the US alliance (US, Australia, New Zealand and Japan) and China, while Taiwan's role in this competition has been scarcely studied in depth, despite being at the front line to face China's pressure. This research emphasizes the diplomatic and economic engagement between Taiwan and China in Oceania, filling a gap in the literature.

Second, many Oceanian countries, drawn to China's economic strength and assistance, seek to establish alliances with China as an alternative option beyond traditional powers. China frequently capitalizes on these expectations to persuade Taiwan's diplomatic allies to switch their allegiance. However, does this expectation align with reality? Does forging diplomatic ties with China rather than Taiwan genuinely benefit the economies of Oceanian island nations? Empirical research on this matter has been scarce. This study employs the DID analysis to scrutinize the situation of small island states and examines the recent developments in the fisheries, mining and tourism sectors to assess the roles of Taiwan and China in the recent development. We find that for small islands reliant on fisheries, aligning with Taiwan is a sound economic choice and can be beneficial for stable economic growth. Countries that export significant quantities of raw materials to China are more likely to depend on the Chinese market and be susceptible to Chinese sanctions. These nations should contemplate strategies to diversify their export markets and build economic resilience. The case of Palau offers an exemplary model for planning sustainable development. This research can serve as a valuable reference for international relations studies and foreign policy analysis.

Third, over the past decade, the Oceanian Studies community and numerous island leaders have gravitated toward the "China as an alternative" narrative. Nevertheless, Western democratic countries have recently grown more conscious of the ambitions underlying China's expansion, prompting the resurgence of the "China as a threat" narrative. While the latter can sometimes be alarmist and overstated, proponents of the former frequently accept China's rhetoric without scrutiny. This chapter points out that Oceanian countries do not constitute equal "South to South developing countries" as portrayed in China's rhetoric, and highlights that China's professed non-interference principle is not consistent with the facts on the ground. Numerous recent instances reveal that China's "non-interference" in Oceania merely entails fewer restrictions on aid compared to those imposed by OECD countries, rather than refraining from meddling in the affairs of allies. This is particularly evident in diplomatic affairs, as China imposes the One China Principle to curtail relations with Taiwan, which goes against the "Friends to all, enemies to none" idea widely embraced by Oceanian islanders.

Previously in 2018, under Chinese pressure, Fiji downgraded the name of the Taiwanese overseas mission to the "Taipei Trade Office in Fiji." However, with the recent inauguration of a new government, Fiji has reinstated the name of Taiwan's overseas mission as the "Trade Mission of the Republic of China (Taiwan)," and restore the status of its diplomatic privileges.[46] This is an act to assert Fiji's sovereignty. Nevertheless, the name change was reversed under the Chinese pressure in a few months. The international community can support Taiwan to participate in regional organizations and multilateral aid projects, creating a friendlier diplomatic environment for Taiwan's engagement in the region.

The theory of realism – which posits that the desire to dominate and control other states drives great powers to engage in competition and conflict with one another – oversimplifies regional politics and marginalizes the voices of Pacific countries and local societies. According to Pacific Islands scholars such as Teaiwa (2017) and Kuper (2019), neither the great power-centric discourse nor the balance of power theory can adequately illustrate the nuanced power dynamics, as they continually disregard the agency, culture and resistance of Pacific Islands countries and non-state actors in the region. We agree with their view, and argue that from a Pacific agency perspective, breaking free from the shackles of the One China Principle, returning to the Pacific Way, and cooperating in diverse ways with multiple partners, including Taiwan, could benefit the Oceanian communities in economic and cultural development

Notes

1 See "Solomon Islands taskforce calls for govt to swap Taiwan for China," Radio New Zealand, www.rnz.co.nz/international/pacific-news/398881/solomon-islands-taskforce-calls-for-govt-to-swap-taiwan-for-china

2 See "Micronesia's President Writes Bombshell Letter on China's 'Political Warfare,'" *The Diplomat*, https://thediplomat.com/2023/03/micronesias-president-writes-bombshell-letter-on-chinas-political-warfare/

3 This paper was written in 2022–2023. In January 15th, 2024, two days after Taiwan's presidential election, Nauru switched recognition and turned to China.

4 The UK has also pledged a new approach, titled "Pacific Uplift." Indonesia talked about "Pacific Elevation" in 2019.

5 The White House. (2022, June 24). Statement by Australia, Japan, New Zealand, the United Kingdom, and the United States on the Establishment of the Partners in the Blue Pacific (PBP). www.whitehouse.gov/briefing-room/statements-releases/2022/06/24/statement-by-australia-japan-new-zealand-the-united-kingdom-and-the-united-states-on-the-establishment-of-the-partners-in-the-blue-pacific-pbp/

6 The White House. (2022, September 29). Declaration on U.S.–Pacific Partnership. www.whitehouse.gov/briefing-room/statements-releases/2022/09/29/declaration-on-u-s-pacific-partnership/

7 Recent news reports have stated that China has an interest in establishing military bases in Fiji, Vanuatu, and Kiribati. The secret security agreement recently signed between China and the Solomon Islands has elicited further apprehension. However, there is no confirmation of any tangible actions or concrete plans.

8 The substantial investment by Chinese casinos in the Commonwealth of the Northern Mariana Islands (CNMI) has elicited concern in the United States due to the casino's proximity to a US military base (Gough & Li, 2017). Another example pertains to the undersea cable network in the Pacific region. Initially, the Solomon Islands selected a British-American company, Xtera, to install the cable connecting the country to Sydney, with funding from the Asian Development Bank (ADB). However, the government under then-Prime Minister Manasseh Sogavare opted for the Chinese telecommunications giant Huawei. The projects drew concern from the Australian government over their security implications. Australia replaced Huawei, agreeing to finance the construction of a new undersea telecommunications cable connecting Papua New Guinea, the Solomon Islands, and Australia. Recently, the United States, Australia and Japan took over the cable project in Micronesia, probably for similar security concerns.

9 Please see discussion below for details.

10 In terms of international trade negotiations, Pacific countries have strong agency in the context of regional geopolitics (Morgan, 2015).

11 See the letter to Solomon Islands Prime Minister, Manasseh Sogavare, https://gov.fm/files/Letter_to_T_H__Prime_Minister_Manasseh_Sogavare.pdf; www.facebook.com/piofsm/videos/497080594884771

12 See Nauru demands China apologize for "disrespect" at Pacific forum, Reuters, www.reuters.com/article/us-pacific-forum-china-idUSKCN1LM0HM

13 See "Chinese foreign minister tolerates no reporters during Pacific island tour," Reporters Without Borders, https://rsf.org/en/chinese-foreign-minister-tolerates-no-reporters-during-pacific-island-tour

14 *Supra* note 2, at 138.

15 Taiwan's aid is also criticized as less transparent and less regulated.

16 Taiwan's representative office in Fiji was also forced to change the name from "Trade Mission of the Republic of China to the Republic of Fiji" to "Taipei Trade Office in Fiji" in July of 2019. A year earlier, Taiwan's representative office in PNG was also forced to change from "Trade Mission of the Republic of China（Taiwan）in Papua New Guinea" to "Taipei Economic and Cultural Office in Papua New Guinea" before APEC 2018 took place in Port Moresby.

17 See "Sogavare reiterates commitment to 'One China policy,'" Solomon Islands Government, https://solomons.gov.sb/sogavare-reiterates-commitment-to-one-china-policy/
18 See "Solomon Islands: Suidani disqualified for not recognising One China policy," Islands Business, https://islandsbusiness.com/news-break/solomon-islands-suidani-disqualified/
19 www.icdf.org.tw/
20 E.g., "Home Energy Efficiency and Renewable Energy Project in the Marshall Islands," www.icdf.org.tw/ct.asp?xItem=41455&ctNode=30040&mp=2
21 E.g., Civil strife or coups in Fiji, the Solomon Islands, and PNG; closing and opening of phosphate mine in Nauru.
22 All DID results and graphs come from the work of Dr. Ling-yu Chen and Dr. Jinji Chen. See Ch. 3 for details.
23 Tuvalu's ambassador to Taiwan also gave similar accounts. Their government is still trying to work with Taiwanese cargo companies to obtain employment for experienced sailors.
24 See "New Samoa PM cancels China-funded port," *Island Times*, https://islandtimes.org/new-samoa-pm-cancels-china-funded-port/
25 Members include the Federated States of Micronesia, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, the Solomon Islands and Tuvalu. These countries collectively control 25%–30% of the world's tuna supply, and control around 50% of the global supply of skipjack tuna. See PNA (n.d.).
26 The Vessel Day Scheme (VDS) is a rights-based management mechanism designed to regulate fishing activities by purse seine vessels. This approach establishes benchmark prices and allocates tradable fishing days.
27 Some are logging illegally. For example, there was a recent case in the Solomon Islands. See "Isabel landowners fight for ownership over Tubi logs," *The Island Sun*, https://theislandsun.com.sb/isabel-landowners-fight-for-ownership-over-tubi-logs
28 See "Chinese demand spurs LNG investment in Papua New Guinea," *Nikkei Asia*, https://asia.nikkei.com/Economy/Chinese-demand-spurs-LNG-investment-in-Papua-New-Guinea
29 See "USGS Mineral Yearbook Chinese redevelopment of Solomon Islands' Gold Ridge mine dubbed 'way over the top,'" ABC News, www.abc.net.au/news/2019-10-30/china-cites-early-harvest-benefits-in-guadalcanal-deal/11654596
30 See "Debt-trap diplomacy: China secures Gold Ridge Mine in Solomon Islands," *Taiwan Times*, www.taiwannews.com.tw/en/news/3780779
31 See "Mixed prospects for the mining sector," *The Economist Intelligence*, http://country.eiu.com/article.aspx?articleid=1697603353
32 "Concern for oil spill near East Rennell, Solomon Islands, in Central Pacific," UNESCO, www.unesco-hist.org/index.php?r=en/article/info&id=1478
33 "Axiom mining claims Solomon PM's Chief of Staff sought $700,000," Papua New Guinea Mine Watch, https://ramumine.wordpress.com/2019/12/05/axiom-mining-claims- solomon-pms-chief-of-staff-sought-700000/
34 See "Logging company 'reinvented' itself as bauxite miner in Solomon Islands, says researcher," ABC News, www.abc.net.au/radio-australia/programs/pacificbeat/logging-company-reinvented-itself-as-miner/10899386 (Last visited Jan. 2, 2022); See "Warning from Isabel," The Island Sun, https://theislandsun.com.sb/warning-from-isabel/
35 "Isabel landowners refused to sign access agreement," *The Island Sun*, https://theislandsun.com.sb/isabel-landowners-refused-to-sign-access-agreement/

36 According to the USGS 2017-18 Mineral Yearbook, only Chinese companies had produced mineral exports. The 2015 Yearbook listed other investments in gold mines by Canada, Australia and Japan, but it seems they are still in the planning stages.

37 See "Analysts point to logging and mining to explain Solomon Islands unrest," https://news.mongabay.com/2022/01/analysts-point-to-logging-and-mining-to-explain-solomon-islands-unrest/?fbclid=IwAR01c6C--fk7rKJRXXqmNNCS_t7vHxEb1Dv0rJE33ECaGOI2JAju2t6L7gc

38 See "SPTO Annual Visitor Arrivals Report, 2019," https://pic.or.jp/ja/wp- content/uploads/2019/07/2018-Annual-Visitor-Arrivals-ReportF.pdf

39 The *New York Times* contends that the Imperial Pacific project has been linked to China's BRI, which even incorporates American territory for economic development.

40 See "Chinese couple arrested and accused of trying to establish mini-state in the US-defended Marshall Islands," Insider, www.businessinsider.com/chinese-couple-accused-establish-new-state-in-marshall-islands-2022-9

41 United Nations trust territory administered by the United States in parts of Micronesia after World War II. Areas administered as part of the TTPI included the modern-day Marshall Islands, Federated States of Micronesia, Palau, and the Commonwealth of the Northern Mariana Islands.

42 Data collected from *The World FactBook*, www.cia.gov/the-world-factbook/countries/palau/#economy

43 Data collected from Lowy Institute Pacific Aid Map, https://pacificaidmap.lowyinstitute.org/dashboard

44 The data is collected from the official statistics database maintained by the Palauan government: www.palaugov.pw/executive-branch/ministries/finance/budgetandplanning/immigration-tourism-statistics/

45 The China Approved Destination Status (ADS) scheme is an arrangement between various countries and Chinese governments. The scheme allows Chinese tourists to travel to certain countries in guided groups.

46 See "Republic of Fiji government reinstates name of Taiwan's overseas mission and diplomatic privileges," Ministry of Foreign Affairs, Republic of China (Taiwan), https://en.mofa.gov.tw/News_Content.aspx?n=1328&s=99990

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7 Economic versus political engagement with China and Taiwan in Central and Eastern Europe

Ágnes Szunomár

Introduction

The transition of Central and Eastern European (CEE)[1] countries from centrally planned to market economies in the late twentieth century transformed the region's external economic relations. During this transition period, CEE countries went through radical economic restructuring, largely induced by foreign capital. Multinational enterprises (MNEs) realized significant investment projects and established their own production networks in the region. Investors, primarily from core European countries, were attracted by macroeconomic factors, including relatively low unit labor costs, market size, openness to trade, and proximity. Institutional factors, such as the prospects for CEE countries' economic integration with the European Union (EU), also increased foreign direct investment (FDI) inflows.

Compared with investments from Western Europe and the US, non-Euro-Atlantic FDI remained modest in CEE, although the first wave of such investment did start directly after the transition and picked up again beginning in the early 2000s. Both Chinese and Taiwanese companies have targeted the CEE region: Some smaller companies first arrived in the 1990s, while medium-sized and larger companies made their first investments after the millennium, with the Czech Republic, Hungary, and Poland (CEE3) among the most popular destinations.

Historically, geographically, and politically bound to Europe and highly dependent on the EU for trade and investment, the CEE region as a whole has not managed to reach a common position on China. Some countries have more reservations about the growing Chinese presence, while others are more welcoming in the hope of greater economic opportunities. CEE countries are also aware that even lower levels of cooperation with Taiwan may provoke a backlash from China, although some of them are willing to take the risk. This diversity of approaches is also reflected in their attitude toward Taiwan. It must be emphasized that CEE countries – like other European countries – are certainly not planning a diplomatic switch between China and Taiwan for the time being, but informal relations with Taiwan have indeed strengthened in recent years in several cases.

In line with the above, the aim of this chapter is to analyze economic relations – and their possible effects on the political terrain – between China and Taiwan and the

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CEE3 region. Besides presenting the evolution of formal and informal diplomatic relations, trade, and investment volumes since 2000, we outline how important the CEE region is in Chinese/Taiwanese companies' expansion strategies, and the primary factors that make it attractive. The study will also examine the effects of China/Taiwan–CEE economic relations on their image in CEE3 countries. The chapter intends to analyze whether China and Taiwan are more favorably perceived as a result of greater economic activities, and whether diplomatic gestures from the CEE3 can generate more trade and investment from China/Taiwan.

Methodology

We focus on the Czech Republic, Hungary, and Poland, because they have received the most Chinese and Taiwanese FDI in the region and have significant trade links, while adopting different political stances toward Beijing and Taipei. Other CEE countries – such as Lithuania or Slovakia – would also have been interesting to analyze politically due to their recent slight but tangible shifts in foreign policy towards Taiwan. However, economic ties are far from significant between either Lithuania or Slovakia, and China or Taiwan, and as a result, there is not much at stake and little scope for retaliation.

Our methodological approach comprises a mix of qualitative interpretative methods such as interviews and qualitative document analysis, complemented by secondary literature and news sources. Interviews were conducted either in person or online with company officials, representatives of chambers of commerce, diplomats, and government officials. Where personal interviews were not possible, the authors used other sources, such as former employees, business professionals, experts, and academics from the CEE3. The interviews were conducted anonymously, and all interviewees were guaranteed confidentiality. Additionally, the interviews were semi-structured and were analyzed based on extensive note-taking during and after the interviews. To complement our arguments, and to dig deeper into the institutional and societal contexts of the host countries, we also relied on qualitative document analysis of governmental policy reports, news reports, corporate publications (e.g., annual reports), and corporate databases (such as Orbis).

An area of contest between Beijing and Taipei?

Even though all CEE3 countries have diplomatic relations with China and have maintained the "One China Policy," during their transition, these countries, as Turcsányi (2020a) puts it, "became some of the most active substantive partners of Taiwan." That is, these new democracies genuinely sympathized with anti-communist Taiwan and saw opportunities in its dynamic economic performance. Almost all CEE countries opened representative offices in Taiwan, and Taipei representative offices were established in CEE capitals (Turcsányi, 2020a). However, CEE countries were aware that even lower levels of cooperation with Taiwan could provoke China, and as a result, they decided not to further engage. In 2012, China decided to take its CEE relations to a higher level and initiated the 16+1 initiative,[2] a framework of cooperation between China and 16 CEE countries in political, economic, and social arenas, with large annual summits that serve as an opportunity to develop multilateral and bilateral relations.

The relationships have distinct characteristics. China is a relative newcomer to the CEE region, often building its relations with political and economic elites from scratch, and it therefore lacks understanding of the local environment (Turcsányi, 2020b). China entered the region with more vigor following the global economic and financial crisis in 2008, after which Beijing began to consider CEE as a geographic gateway to the rest of the EU market (Szunomár, 2018). CEE countries were also affected by the crisis and began reconsidering their predominantly westbound orientation and exploring possibilities elsewhere, including China. In some countries (such as Hungary, the Czech Republic, Poland, and Serbia), the process was further accelerated by the ascendance to power of politicians with skeptical views of the EU (Karásková et al., 2020).

Although almost all CEE countries toyed with the idea of strengthening economic relations with China in order to enhance their economic development, this commitment was rather cautious and has not proven to be lasting in most cases. In the CEE3, two countries – the Czech Republic and Poland – can be considered more cautious toward China, while Hungary seems to be China's most trusted partner in the CEE region.

The Czech Republic has adopted the most critical approach toward China, challenging China over many human rights issues, Tibet, and other issues. Starting from this rather cold and critical stance, Prague's relationship with China changed for a few years as the Chinese leadership found common ground with President Milos Zeman. As our expert interviews confirmed, after Czech "political sympathy" developed, inflows of Chinese FDI began to increase. As a case in point, Zeman – who was the only high-level European politician to participate in China's celebrations to mark the anniversary of the end of World War II in 2015 – declared that he wanted his country to be China's "unsinkable aircraft-carrier" in Europe (*The Economist*, 2018). He also employed a Chinese adviser directly from a Chinese company with a controversial background. However, as soon as the biggest Chinese investor in the country, CEFC, came under investigation by Chinese authorities for "suspicion of violation of laws" (Lopatka & Aizhu, 2018), critical voices intensified in the Czech Republic. As a result, Czech–Chinese relations have cooled off again, no significant Chinese FDI flows have arrived since then, and disinvestment took place in 2017 (see Table 7.1).

Based on our interviews conducted with experts in China–Poland relations, Poland used to be more enthusiastic about the potential for its relationship with China but has recently taken a more critical stance, for three main reasons. First, the high trade deficit with China is seen as a problem: Polish imports from China have been eight to 12 times higher than Poland's exports to China in recent years, with the deficit reaching €20 billion according to Eurostat. Second, potential security risks associated with Chinese investments caused the Polish government to reconsider its positive approach. This reconsideration was signaled by the cancellation of tenders and a number of political statements (Szczudlik, 2017). As a probable result of this, investment flows have begun to stagnate. Third, as confirmed by one of our interviewees, since Russia presents a potential threat to Poland, the country has been the US' closest regional ally, and as a result, it often follows the US stance on China.

Hungarian governments – regardless of political orientation – have been working on developing relations with China for over two decades. Hungary launched a new foreign economic policy in the spring of 2012 seeking to diversify foreign economic relations: the "Eastern opening policy." Although the Orbán government has emphasized that it would like to maintain Hungary's strong and important economic relations with its traditional Western (European) partners, the main objective of this policy has been to reduce Hungary's economic dependence on trade and investment with the West. This has meant an opening to the East, particularly China. Besides promoting economic relations with China, Viktor Orbán's government has backed China on sensitive issues. Hungary was the first EU member country to sign a memorandum of understanding with China on the Belt and Road Initiative (BRI). This came during the visit of Foreign Minister Wang Yi to Budapest in June 2015. The Hungarian government was also very keen on promoting the Budapest–Belgrade railway, a long-negotiated, soon-to-be-commenced construction project under the BRI umbrella. When signing the construction agreement in 2014, Orbán called it the most important moment for cooperation between the EU and China (Keszthelyi, 2014).

Supporting China's infrastructural endeavors is, however, not the only field in which Hungary has been distinctive. In 2016, Hungary (and Greece) prevented the EU from backing a court ruling against China's expansive territorial claims in the South China Sea (*The Economist*, 2018). In 2018, Hungary's ambassador to the EU was alone in not signing a report that criticized the BRI for benefiting Chinese companies and Chinese interests, and for undermining principles of free trade through its lack of transparency in procurement (Sweet, 2018). Although the background rationale behind the strong Hungarian commitments toward China used to be economic in the early 2000s, recently Hungary has used the "China card" for political reasons (Turcsányi, 2020b) to demand better treatment from Western partners.

As described above, when it comes to China–CEE3 relations, the Czech Republic has remained rather cautious and critical from the beginning, Poland used to be more enthusiastic but has taken a more critical stance recently, while Hungary and China have their own "special relationship." Understandably, those countries that are anxious about China tend to have a friendlier attitude toward Taiwan. While Lithuania, the Czech Republic, and Poland seem to be open to more intense economic, cultural, and scientific relationships with Taiwan, they always add that this does not imply any conflict or disagreement with the One China Policy. Thus, they try to avoid political commitments and do not take this to a formal level. However, recent developments may indicate some change in this area: A few CEE countries, including the Czech Republic, increased unofficial diplomatic relations to a slightly higher level when sending coronavirus vaccines to Taiwan in 2021. The gesture was well received in Taipei and has been followed by a Taiwanese business mission to three of the countries and the prospect of further trade and investment (McEnchroe, 2021).

The growing Chinese footprint and moderately increasing Taiwanese presence in the CEE3

Over the past two decades, both the Taiwanese and the Chinese economic presence in the CEE3 has been characterized by developing trade relations and growing inflows of FDI.[3]

Trade

A comparative analysis of CEE countries' trade with China (Karásková et al., 2020) revealed that the majority of the countries (especially in the Baltic and the Balkans) have relatively low trade volumes with China. Within the entire CEE region, the Czech Republic, Hungary, Poland, and Slovakia show the highest trade flows, followed by Romania, Slovenia, Serbia, and Bulgaria. With regard to trade between the CEE3 and China, it has indeed increased substantially over the past 20 years (see Figure 7.1). In the case of imports from China, both the CEE3's EU membership (2004) and the launch of the 16+1 initiative (2012) gave new impetus to relations. However, while the CEE3's imports from China increased substantially, the growth of their exports to China remained rather modest after 2012 and even decreased slightly for a few years after 2014. As a result, trade deficits increased rapidly as well. Additionally, despite the growth of trade between the two sides, the relative significance of China has barely increased, as the total trade of CEE countries has been growing almost as fast as their trade with China. Likewise, the share of CEE countries in total EU–China trade has not grown extensively, as EU–China trade itself has increased rapidly. That is, China's relative significance as a trade partner has not changed much as a result of the 16+1 cooperation, especially in the case of exports.

In the case of Taiwan–CEE3 trade relations, as Figure 7.1 shows, trade flows are more volatile, especially imports, which are characterized by many ups and downs. Still, there has been a modest increase (compared with China) over the past two decades. Between 2000 and 2020, imports nearly doubled, while exports tripled. Based on Eurostat figures, the main import products from both China and Taiwan are machinery and electronics. The CEE3 countries' exports are dominated by vehicles, machinery, and electronics, while Poland also exports a significant amount of metal (including refined copper and copper alloys) to China.

When comparing the CEE3's trade with China and Taiwan (see Figure 7.2), we can conclude that Poland, the biggest country in the region, is the largest recipient of both Chinese and Taiwanese imports, followed by the Czech Republic and Hungary. On the export side, it is again Poland – followed by the Czech Republic and Hungary – that exports the most to China. The Czech Republic exports the most to Taiwan, followed by Poland and Hungary. It should be emphasized that the

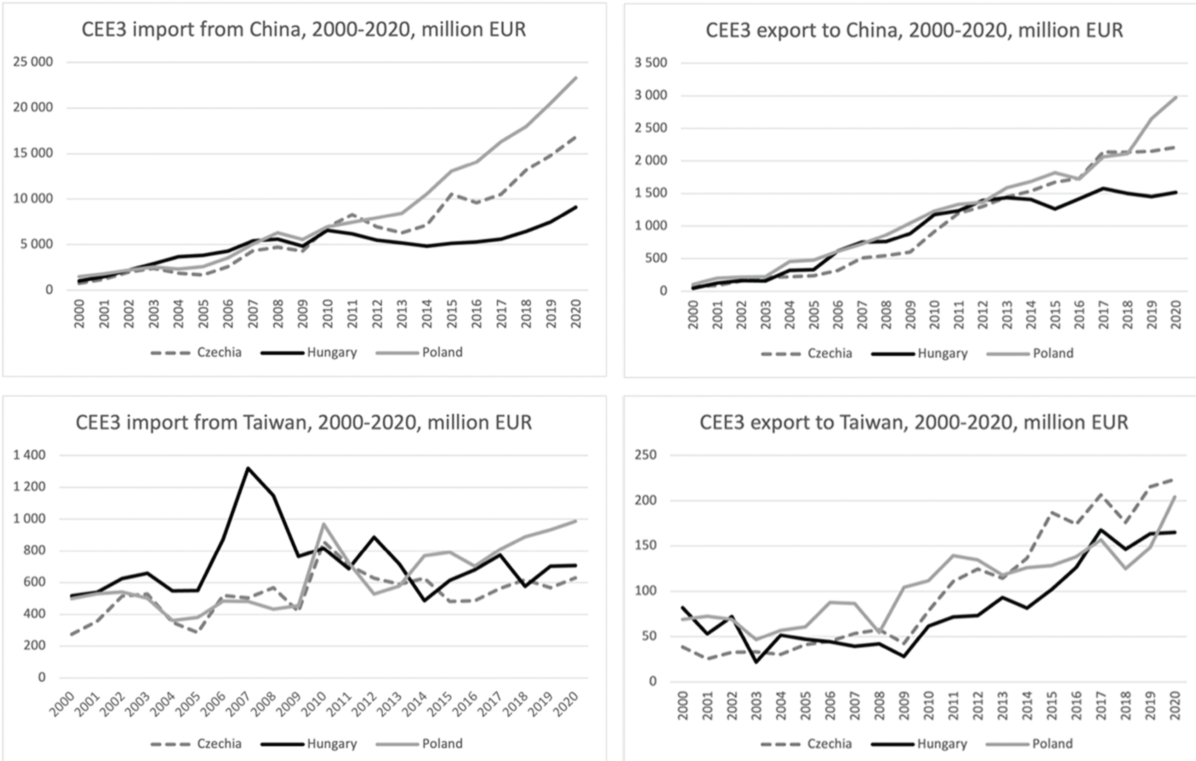

Figure 7.1 CEE3 trade with China and Taiwan, 2000–2020.

Source: Own compilation based on Eurostat data.

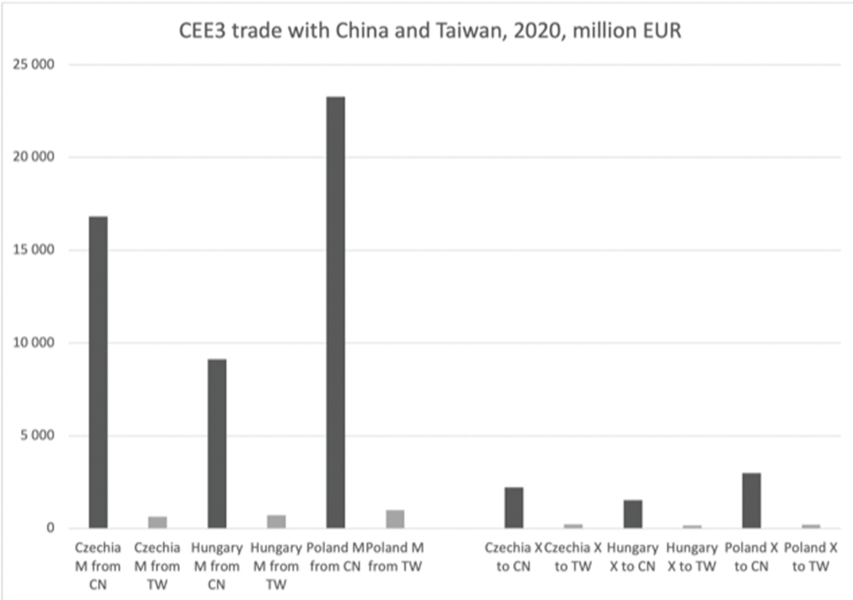

Figure 7.2 CEE3 trade with China and Taiwan, 2020, million EUR.

Source: Own compilation based on Eurostat data.

vast majority of exports are generated by local subsidiaries of MNEs rather than CEE3-owned companies.

Investments

Although most investors in the CEE3 initially arrived from Western Europe, the first phase of inward East Asian FDI also came soon after the democratic transition of 1989. Japanese and Korean companies indicated their willingness to invest in the CEE3 even before the fall of the Iron Curtain in the late 1980s. However, most of their investments took place during the first years of the democratic transition in the 1990s. Taiwanese businesses made their first steps into CEE3 markets during this phase. The second impetus was prompted by the CEE3's accession process to the EU, which coincided with China's increasing global engagement, highlighted by its "going global" policy. The CEE3's EU membership allowed East Asian investors to avoid trade barriers by using them as assembly bases. The third phase dates back to the global economic and financial crisis, when financially distressed companies all over Europe were often acquired by non-European companies. Regardless, the CEE3 have become increasingly open to investors from outside Europe.

As follows from the above, the CEE3 presence of Chinese and Taiwanese companies dates back to almost the same period. While smaller Taiwanese companies established their CEE3 presence in the 1990s, larger companies, especially Taiwanese MNEs, gained their foothold after the millennium. Smaller Chinese companies first became established during the 1990s, mainly by Chinese nationals living in Hungary, whose numbers had started to increase.[4]

China's economic impact on CEE countries is still relatively small, despite a significant increase over the past two decades (Garlick, 2019; Szunomár, 2020; Turcsányi, 2020b; Matura, 2021). Similarly, although to a relatively modest degree when compared to China, Taiwanese companies' investments also increased during the same period (Turcsányi, 2020a). The transformation of the global economy and the restructuring of China's economy fueled its interest in the CEE3, which presented new challenges and opportunities for East Asian companies (Jakóbowski, 2018; Szunomár, 2018, 2020; Karásková et al., 2020). For China, after 2012 and 2013, this process has been amplified by 16+1 cooperation and the launch of the BRI.

By 2020 (see Figure 7.3), the CEE3 countries had accumulated more than $5.5 billion in Chinese FDI and more than $2.6 billion from Taiwan, with Hungary receiving the most, followed by the Czech Republic and Poland. Interestingly, the numbers of companies exhibit a somewhat opposite trend: Poland has the highest number of Chinese companies, followed by Hungary and the Czech Republic, while the number of Taiwanese companies is the highest in the Czech Republic, followed by Poland and Hungary. That is, Hungary has the highest stock of FDI from both China and Taiwan, while it hosts only a third as many Chinese companies as Poland and a quarter as many Taiwanese companies as the Czech Republic. The explanation is relatively simple: Hungary mainly hosts large MNEs from both

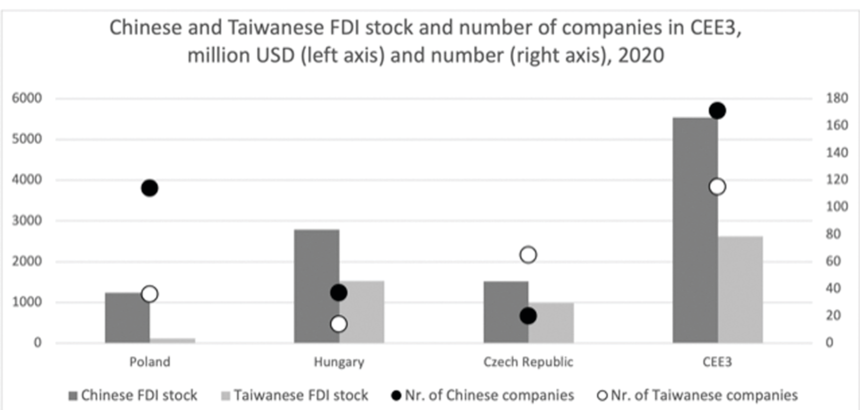

Figure 7.3 Chinese and Taiwanese FDI stock and number of companies in CEE3, million USD (left axis) and number (right axis), 2020.

Source: Own compilation based on OECD (FDI stock) and Orbis database (Nr. of companies).

China and Taiwan, with each of these investments having a relatively high value, while Poland and the Czech Republic mainly host smaller companies.

Based on OECD statistics, Chinese and Taiwanese yearly FDI flows are relatively inconsistent throughout the entire CEE region, which probably means that FDI flows are connected to one or two big business deals per year. Disinvestments are less characteristic for the majority of the analyzed CEE3 countries; however, one big disinvestment did take place in the Czech Republic in 2018, probably as a result of financial problems in one particular Chinese company, CEFC China Energy, the major Chinese investor in the country.

Chinese investments are still dwarfed by, for example, German MNEs' investments in these countries. When calculating percentage shares, we found that Chinese FDI stock is around or below 1% of total inward FDI stock in the CEE3 countries. It is above 1% only in the case of Hungary. Western European investors are still responsible for more than 70% of total FDI stock in CEE, while companies from the US or Japan and South Korea are typically more important players than those from China. Taiwanese FDI stock is less significant than Chinese FDI, but it has also been increasing. Taiwan's share of total FDI in the CEE3 is above 0.5% only in the case of Hungary.

One notable phenomenon is that most East Asian companies tend to invest in the CEE3 via intermediary countries or companies instead of directly. Consequently, East Asian FDI in all CEE3 countries is considerably more substantial according to the data on the ultimate owners' home country rather than the data on the immediate owners' home country.

The main entry modes of and sectors targeted by Chinese and Taiwanese investment are similar in all CEE countries, although they are more diverse in the most popular target countries. Both Chinese and Taiwanese investors typically target secondary and tertiary sectors in the CEE3. Initially, their investment flowed mostly into manufacturing, but over time, services have also attracted investment. The main Chinese investors targeting the CEE3 countries are primarily interested in telecommunications, electronics, chemicals, and transportation, while Taiwanese companies operate mainly in electronics manufacturing or assembly of machinery and transport equipment. Regarding their entry modes, Chinese companies have carried out greenfield projects, but mergers and acquisitions (M&A) became more frequent later on, especially after the global economic and financial crisis of 2008. Greenfield projects are even more typical for Taiwanese companies. It must be noted, however, that CEE countries – unlike countries in Western Europe – do not offer many M&A opportunities, since the number of successful, globally competitive companies is much lower.[5] Among investing Chinese companies, we can find both privately owned and state-owned enterprises, while Taiwanese companies are all privately owned.

Differences and similarities: What makes the CEE3 attractive for Chinese and Taiwanese companies?

Host-country determinants or pull factors are the characteristics that attract FDI. Pull factors can be grouped into macroeconomic and institutional factors.

Macroeconomic pull factors usually include access to markets, low factor costs, and new opportunities for asset-seeking companies. Institutional factors usually include international and regional investment and trade agreements, host government policies, and the role of different institutions (Makino et al., 2002; Buckley et al., 2007; Schüler-Zhou et al., 2012). We can further specify institutional factors by dividing them into two levels: the supranational level and the national level (McCaleb & Szunomár, 2017). Among possible pull factors that make the CEE3 a favorable investment destination for Chinese and Taiwanese investors, we find several similarities and a few differences (see Table 7.1).

Among similarities, the labor market is to be considered first, since a skilled labor force is available in sectors (mainly manufacturing) in which Chinese as well as Taiwanese interest is growing, with labor costs being lower than the EU average in the CEE3. Similarly, corporate taxes can also play a role in the decision of East Asian companies to invest in the region. Nevertheless, differences in labor costs and corporate taxes within the broader CEE region do not really seem to influence Chinese or Taiwanese investors. After all, there is more investment from China or Taiwan in the CEE3 than in Romania or Bulgaria, where factor costs are lower. This can be explained by the theory of agglomeration (the more FDI a country already hosts, the more it will be able to attract), as inward FDI in CEE countries is highest in the CEE3 (McCaleb & Szunomár, 2017).

Although the above-mentioned efficiency-seeking motives play a role, the main type of both Chinese and Taiwanese FDI in the CEE3 seems to be market-seeking investment: By entering these markets, companies have access to the entire EU market. Moreover, they might also be attracted by free trade agreements between the EU and third countries and the EU's neighboring country policies. Their CEE3 subsidiaries aim to sell products in the CEE3 host countries, the EU, and North America, or even global markets (Wiśniewski, 2012, p. 121). Based on the interviews, Chinese as well as Taiwanese companies wanted to operate in the CEE3 due to their already existing businesses in Western Europe, and to strengthen their presence in the wider European market. There are cases of both Chinese and Taiwanese companies following their customers or global partners to the CEE region. In addition, there are cases of Taiwanese companies following their Chinese partners to the CEE region.

As for supranational institutional factors (see Table 7.1), the change in the CEE3 countries' institutional settings due to their economic integration into the EU has been an important driver of Chinese outward FDI in the region, especially in the manufacturing sector.

Another aspect of EU membership that has induced Chinese investment in the CEE3 is institutional stability, given the unstable institutional, economic, and political environment at home. These findings are in line with those of Clegg and Voss (2012), who argue that Chinese outward FDI in the EU shows "an institutional arbitrage strategy," as

> Chinese firms invest in localities that offer clearer, more transparent and stable institutional environments. Such environments, like the EU, might lack the rapid

Table 7.1 Major pull factors of analyzed Chinese and Taiwanese companies in CEE3

Macroeconomic pull factors	*Institutional pull factors*	
	supranational	*national*
Market access	International and regional investment and trade agreements, free trade agreements	*Host government policies (including strategic partnership agreements between the government and certain companies); political relations*
Low factor costs (resources, materials, labor)	Advanced institutional setting; institutional stability (such as IPR protection)	Tax incentives, special economic zones
Qualification of labor force	European production and services standards (such as product safety standards)	*'Golden visa' programs (residence visa for a certain amount of investment)*
Various opportunities for asset-seeking companies: brands, know-how, knowledge, networks, distribution channels, access to global value chains, etc.	Chance for participation at EU level public procurement processes	Institutions such as banks, government-related investment promotion agencies (IPAs)
Company-level relations		*Possibility for more acquisitions through privatization opportunities*
The high level of technology		*Home country diaspora in the host country*

Source: Own compilation based on the reviewed literature and company interviews.

Note: *Factors in italics* refer only to Chinese companies; factors in Roman text characterize both.

economic growth recorded in China, but they offer greater planning and property rights security, as well as dedicated professional services that can support business development.

National-level institutional factors include strategic agreements, tax incentives, and privatization opportunities. Based on our observations, as well as responses from interviewees, Chinese companies appreciate business agreements that are supported by the respective host country government. Thus, the high-level strategic agreements with foreign companies investing in Hungary offered by the Hungarian government or the special economic zones created by the Polish state could also have spurred Chinese investment in the region. Moreover, personal political contacts between representatives of the respective host country government and Chinese companies also proved to be important when choosing a host country in the CEE3.

Based on our interviews, we also found that in the case of Chinese MNEs' motives in the CEE3, a significant role is attributed to other less-quantifiable aspects, such as the size and response of the Chinese ethnic minority in the host country, as well as the possibility of acquiring visas and permanent residence permits. This finding is consistent with Blonigen and Piger (2014) and Hijzen et al. (2008), who argue that companies interested in acquiring foreign assets might be motivated by a common culture and language as well as trade costs. A clear example of this is the stock of Chinese investment in Hungary, which is the highest in the CEE3. Hungary has the largest Chinese diaspora population in the region. Moreover, it is the only country that has introduced a special "golden visa" program, which enables foreign investors to acquire a residence visa in exchange for investing a certain amount of money.

In addition to the above-mentioned supranational and national-level institutional pull factors, political relations between China and respective CEE3 countries also seem to have influenced Chinese MNEs' investment decisions. Those countries that have acted in favor of China, supported Chinese global and regional initiatives, and welcomed and fostered Chinese MNE's investments typically host – or have hosted during the period of rather friendly ties – more Chinese FDI stock than those countries that have a neutral or rather negative stance on China (see Figure 7.3 above).

Although for Chinese companies political relations between the home and the host country are of the utmost importance, Taiwanese companies are less concerned about the level of political cooperation. During our interviews, almost all sources stressed that Taiwanese companies, especially large firms, act in a highly pragmatic manner. This means that they do not really care about political relations but, rather, focus purely on business interests. In Hungary, for example, compared to the previous Socialist government, Prime Minister Viktor Orban's ruling party Fidesz has doubled subsidies to multinational companies and has been particularly keen to entice electronics and automotive manufacturers, where each job created received thousands of euros in public subsidies. Fidesz, however, also further strengthened relations with China, and as a result, relations with Taiwan are considerably less developed than in other CEE3 countries. As confirmed by one of the Taiwanese companies' representatives based in Hungary, at first glance it may seem that Taiwanese MNEs are not receiving the same subsidies as the Chinese (i.e., the Hungarian government has not signed strategic cooperation agreements with them, and the Hungarian minister of foreign affairs and trade did not attend the opening ceremonies of their companies), but in fact, Taiwanese MNEs seem to be receiving the same or very similar incentives as their Chinese, German, and US counterparts. Given the pragmatic strategy of Taiwanese MNEs, such incentives could indeed explain why Hungary is a relatively popular destination in Europe for Taiwanese companies, despite its political indifference – or even unfriendliness – toward Taiwan.

Of course, political relations do matter, but only up to a certain point. Due to the relatively positive stance the Czech Republic has adopted toward Taiwan, the country is quite popular among Taiwanese people. Taiwanese media, for example, report on events in the Czech Republic much more often than in any other CEE country. This positive perception of the Czechs has influenced the location decisions of some Taiwanese companies, although this tendency is more typical of smaller companies. Big MNEs seem to follow a different logic.

Although the Czech Republic hosts more Taiwanese companies than Hungary, when it comes to the stock of investment, Hungary is the most popular destination for Taiwanese companies in the CEE. And indeed, those few large Taiwanese MNEs with a presence in the CEE seem to choose Hungary rather than Poland or the Czech Republic, even if political relations are coldest there. One of our interviewees explained this by pointing out the connections between Chinese and Taiwanese companies, both globally and locally. In other words, the majority of those big Taiwanese MNEs in the CEE3 – such as Foxconn, Giant, Sinbon, and Yageo – have a connection to China: Either a production facility or a subsidy is located on the mainland, or they have some form of cooperation with a Chinese company globally. As a result, as one of the expert interviewees confirmed, these Taiwanese companies often follow the "Chinese way." That is, they behave in a manner similar to their Chinese counterparts, make similar decisions when it comes to location choice, and even follow Chinese companies to a specific – in our case, the CEE3 – location. These companies are learning from their Chinese partners' experience, leveraging these contacts, and taking advantage of the results their Chinese partners have already achieved there. One of the Czech interviewees emphasized that sometimes even Chinese money is involved in Taiwanese companies' investment in a certain CEE3 location.

Conclusion: Are economic interactions affecting diplomatic relations or vice versa?

As presented above, diplomatic relations examined in this chapter are not identical. There is a formal diplomatic relationship between China and the CEE3, while Taiwan is not formally recognized by any of them. However, Taiwan has worked extensively and has waited patiently to improve relations. As many of the CEE countries have become less and less committed to relations with China, their existing informal diplomatic relations with Taiwan – especially in certain areas, such as the economy – have evolved to approach, albeit not reach, the level of diplomatic relations. This development has motivated us to examine whether economic interactions affect diplomatic relations, whether formal or informal, and vice versa.

Both Chinese and Taiwanese companies have targeted the CEE region. Smaller companies arrived in the 1990s, while medium-sized and larger companies made their first investments after the millennium, with the CEE3 proving among the most popular destinations within the CEE region.

When it comes to factors that attract companies to a certain region, we differentiated between three types of pull factors: macroeconomic, institutional, and political. Based on our interviews, we demonstrate that Chinese and Taiwanese companies are primarily attracted to the CEE3 countries by macroeconomic factors. These factors are, among others, market access (to the entire EU), relatively low factor (mainly labor) costs, and the qualifications of the labor force, as well as company-level relations. Nevertheless, institutional factors – such as free trade agreements, institutional stability, taxes, and other incentives – and the activities of investment promotion agencies are also important for both Chinese and Taiwanese companies when locating in the CEE3. Political factors – such as the level of political relations between the home and the respective host country, political gestures, and confidence-building measures – seem to play an important role only for Chinese companies.

In CEE, Chinese companies tend to invest more in politically friendly countries, such as Hungary or Serbia, while investing less in countries that make critical statements about China from time to time. Economic relations do not really have an impact on political ties – that is, more Chinese investment does not necessarily result in better political relations between China and the respective CEE3 countries. Political (or diplomatic) relations seem to be much more influenced by international trends, mainly by EU-level processes and decisions and the US stance. Hungary seems to be an exception here, at least in the sense that it goes against the EU trends and, unlike the other countries, does not see engagement with China as risky. Still, even in the Hungarian case, we do not see evidence that the economic relationship positively affects the political relationship, since Hungarian–Chinese political relations have been consistently good over the past two decades, while China's economic presence there is still not significant compared to, for instance, that of Western Europe.

While in the case of Chinese companies political ties tend to affect economic relations, rather than vice versa, we could not really find evidence that political factors affect the location decisions of Taiwanese companies in the CEE3. In fact, Taiwanese companies seem to make such decisions based on other criteria. Big Taiwanese multinational companies in particular act in a highly pragmatic manner in the CEE3: They do not really take account of political relations but instead focus purely on business interests. In other words, if they receive more investment incentives in Hungary, they choose Hungary over the Czech Republic, even if the latter is politically more friendly than the former.

Another important observation is that the majority of big Taiwanese multinational companies with a presence in the CEE3 have a connection to China, through either a subsidy on the mainland or cooperation at the global level. These Taiwanese companies leverage these contacts and tend to locate where other Chinese companies are located. Similarly, since Taiwanese multinationals do not want to risk their already existing relations with Chinese multinationals, it appears they are "keeping a low profile" in CEE and do not emphasize their "Taiwaneseness." Consequently, we could not find evidence of economic interactions affecting diplomatic relations between Taiwan and the CEE3.

Although it seems that neither political nor economic relations have an impact on one another in the Taiwan–CEE3 case, recent developments have shown that diplomatic gestures may affect economic interactions: Lithuania, the Czech Republic, Poland, and Slovakia sent coronavirus vaccines to Taiwan amidst the COVID-19 pandemic in 2021. "In return," Taipei sent a delegation to three of the countries that could lead to more investment or business deals (McEnchroe, 2021).

Based on our interview results, there may be a chance for Taiwanese investments to contribute to better political relations with the CEE3 countries in the future. Interviewees believed that if Taiwanese investment was introduced in sectors other than manufacturing and assembly – that is, in high-technology, innovation, and R & D – this could have a positive spillover effect on political relations. Similarly, it is yet to be determined if Russia's invasion of Ukraine will have any influence on the China–Taiwan–CEE3 triangle. For the time being, there seems to be no link between the war, China's international passivity on this issue, and relations between the CEE3 countries and China or Taiwan. However, it is possible that subsequently, the Ukraine invasion may convince CEE countries to further distance themselves from China and deepen their relations with Taiwan.

Notes

1 CEE is a broad term encompassing the countries in Central Europe, the Baltics, Eastern Europe, and Southeast Europe (the Balkans). When using the term "CEE," we refer to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia, and Slovenia. In this chapter, we primarily focus on three CEE countries (CEE3): the Czech Republic, Hungary, and Poland.

2 Although the 16+1 cooperation was formally launched in 2012 in Warsaw, China had initiated its new approach toward CEE countries in 2011, when the first China–CEE meeting took place in Budapest.

3 Recently, in the case of China–CEE relations, we can also observe infrastructure projects carried out by Chinese companies, financed from Chinese loans. However, in the analysed CEE3 countries, major infrastructure projects carried out by Chinese companies are less typical. One striking example of such a project is the Budapest–Belgrade railway, but even in this case, construction work has not yet started.

4 In 1988, a Hungarian–Chinese consular agreement included the lifting of visa requirements between the two countries. In 1990, 11,000 Chinese immigrants arrived in Hungary, while in 1992, the number of immigrants was 27,000. Overall, in the 1990s, Hungary had a Chinese minority of approximately 40,000, up from just a few hundred in the previous decade.

5 During the first waves of privatization after the CEE3's democratization process in the 1990s, the most valuable companies had already been sold to Western companies. According to expert interviews, Chinese partners tend to complain that almost nothing has been left for them.

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8 Foreign investment by Taiwan's high-tech sector and its impact

Kuancheng Huang and Shih-Ping Huang

Introduction

This chapter focuses on trade and investment involving Taiwan's high-tech sector in several geographic areas, complementing other chapters that focused on the contest for diplomatic recognition and on countries that have been targeted or courted by China. The studies have been made mainly from the point of view of the private sector by considering the business logic and decision-making processes of technology companies headquartered in Taiwan. Nonetheless, the major policies and actions of the governments of Taiwan, China, and the countries involved in a trade or investment relationship with Taiwan are examined. In addition, policy implications from the aspect of international relationship development are discussed whenever appropriate. Two representative high-tech subsectors of Taiwan are selected for the studies, focusing on regions or countries with substantial investments from Taiwan. They are the labor-intensive Electronics Manufacturing Service (EMS) industry and the capital-intensive semiconductor industry, for which Taiwan has been playing broad and pivotal roles in the world (Hao & Bu, 2022).

The first part of the chapter addresses the subsector of the EMS industry, for which Taiwanese companies have demonstrated their global significance. EMS providers offer a wide range of manufacturing and design services for electronic production, which may be complemented by additional value-added activities, such as global supply chain management and after-sales customer support during the entire product life cycle. Of the top 40 global EMS or Original Design Manufacturing (ODM) companies listed in 2020, ten were Taiwanese.[1] The leading five are Foxconn/Hon Hai, Pegatron, Quanta, Compal, and Wistron, with a combined revenue accounting for more than 70% of the overall revenue of the top 40. Hon Hai's revenue alone reached US$190 billion.

The EMS industry has relied heavily on production sites in China, which account for more than 70% of production capacity.[2] However, as part of a globalization strategy, many Taiwanese hi-tech companies began to invest in Central and Eastern Europe (CEE), including Foxconn's moves into the Czech Republic in 2000. Moreover, with the intensification of the US–China trade and technology war starting from 2018, many multinational enterprises (MNEs) have been trying to seek production sites outside China to restructure their supply chains. As a result,

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some developing countries, such as Vietnam, Thailand, and India, began to receive substantial investments from Taiwanese EMS companies and their upstream suppliers, giving these countries an indispensable future role in the EMS industry.

The second part of this chapter focuses on the semiconductor industry. In particular, Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC), as the top semiconductor foundry service provider, has achieved a dominant market share of 55%, serving global customers including Apple, Nvidia, AMD, Qualcomm, and Broadcom. By providing a so-called white-label manufacturing service, TSMC has cemented its partnerships with global customers and underpins its leading role in the semiconductor supply chain. At the same time, TSMC is one of the largest buyers with a solid long-term relationship with semiconductor materials and equipment suppliers. Although foreign investments by Taiwanese semiconductor companies were rare in the past, recent investments by TSMC in the US and Japan, and potential plans for expansion elsewhere, have drawn global attention, accentuated by the worldwide chip shortage.

Electronic product manufacturing has significantly benefited developing countries, especially in East Asia (Lall, 1998; Lall, 2000). It was also a crucial sector that helped Taiwan become part of the East Asian Miracle (World Bank, 1993). The investments from Taiwan's high-tech companies are likely to kick off a similar transformation in these developing countries, and the experiences from Taiwan's public and private sectors are valuable. In particular, the Taiwanese government's coordination and intervention can facilitate the co-evolution in the global value chains and simultaneously generate various opportunities to enhance the relationships between Taiwan and these countries, currently without formal diplomatic ties.

Taiwanese EMS companies' investments in CEE

The prominent near-shoring status of CEE countries

The CEE countries have been through the processes of democratic transition, economic transformation, and integration into the European Union (EU) over the last three decades. Many CEE countries have become foreign direct investment (FDI) destinations for MNEs. The main advantages of the CEE countries are their competitive workforce and geographic proximity to European markets, while also exhibiting significant variations among them (Szent-Iványi, 2017).

With changes in industrial patterns, cheap labor costs are no longer the sole consideration for companies when choosing manufacturing locations. Traditional supply chains are evolving to follow a trend of "short-chains," from so-called off-shoring to near-shoring. The Savills Nearshoring Index (Savills Research, 2020) serves as an indicator for the suitability of near-shore outsourcing for countries worldwide by comprehensively considering the figures in three different areas. It includes manufacturing labor costs and electricity costs as well as infrastructure and trade openness.

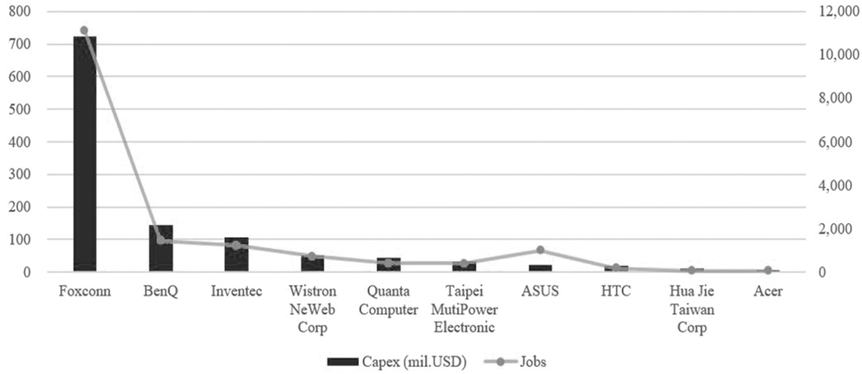

Figure 8.1 Top ten Taiwanese investors in the Czech Republic.

Source: Created by the authors based on fDi Markets.

The Czech Republic and Hungary ranked first and second, respectively, among EU member states in 2020. The Czech Republic became the first choice with its excellent infrastructure, mature manufacturing bases, and appropriate input costs. In 2019, Czech exports accounted for 74% of annual GDP, with Foxconn the second-largest exporter after only Skoda. Also, Hungary has a highly educated, skilled labor force with relatively low labor costs, making it another popular location for near-shore outsourcing.

According to the statistics on Taiwan's direct investment in the Czech Republic (fDi Markets, 2018), Taiwan's investment has been distributed in eight Czech regions, mainly in Prague, Central Bohemia, and South Moravia. The top ten Taiwanese companies contributed US$1.169 billion dollars of capital expenditure and created 16,605 jobs. Foxconn alone made 13 investments, with a capital expenditure of more than US$720 million dollars and the creation of more than 10,000 jobs. It was followed by BenQ, which had three projects, and Inventec with four projects, as outlined in Figure 8.1. For more recent developments, in response to the surging demand for cloud services and rising concerns about information security, Foxconn, Inventec, Wistron, and Wiwynn have all added production lines for servers and motherboards in the Czech Republic to increase the proportion of production outside China.

The development of Foxconn's regional operations center

Foxconn started with a brownfield investment in the Czech Republic in 2000 and utilized localization strategies to develop its EMEA (Europe, the Middle East, and Africa) regional center. Foxconn purchased land and buildings from the bankrupt enterprise HTT Tesla, in Pardubice. This transaction was the first major foreign direct investment in the electronics industry in Pardubice. Foxconn soon became a key foreign investor in the Czech Republic and neighboring CEE countries. Foxconn expanded its production capacities in Kutná Hora in 2007 with tax incentives from the Czech government. It further established a data processing service center in Prague for cloud services in 2015. The company currently has three factories and 12 subsidiaries in the Czech Republic, one factory and four subsidiaries in Hungary, and one factory and one subsidiary in Slovakia, with the key investments shown in Figure 8.2, and the main activities and job opportunities summarized in Table 8.1.

Foxconn's rapid growth in the Czech Republic is closely related to its localization strategy in Europe, which aims for the integration of part suppliers and proximity to major customers and seeks benefits from the EU free trade zone. In line with this expansion strategy, Foxconn acquired or established strategic alliances with key European component manufacturers. In addition, some Foxconn customers moved their factories (such as HP's factory near Glasgow, UK) to the Czech Republic in order to improve efficiency. These accomplishments allowed Foxconn to build an operational center for the region with Pardubice as a logistics hub.

In terms of employment, there are two major channels for Foxconn's employees in the Czech Republic: a permanent contract directly with Foxconn, or employment through temporary worker agencies (Rutvica, 2014). Managers are mainly Czech, Chinese, and Scottish, aged between 40 and 50, on long-term contracts. Most production line supervisors with technical backgrounds are Czech and Slovak, aged between 30 and 40. In addition, the majority of production line workers employed

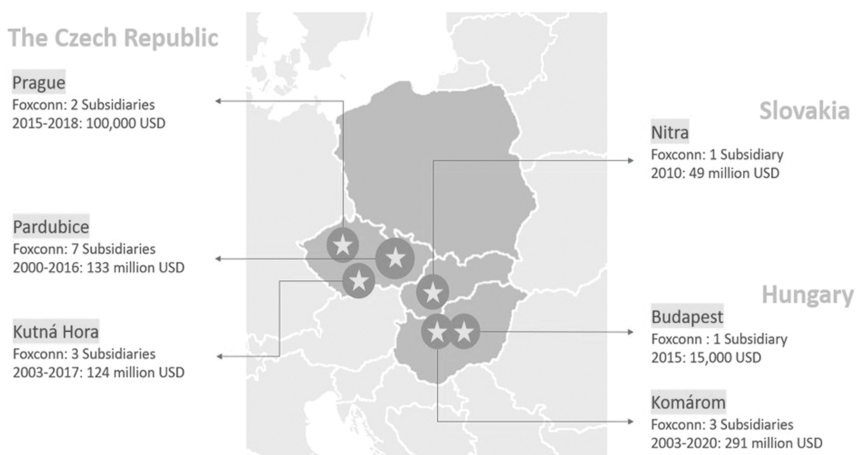

Figure 8.2 General information on Foxconn's investments in facility locations and registered capital in CEE countries.

Source: Created by the authors based on Hon Hai Annual Reports from 2002 to 2020.

Table 8.1 Foxconn's main activities and job opportunities provided in CEE countries

County	*Locations*	*Main Activities*	*Jobs*
Czechia	Pardubice	1. Computer & monitor manufacturing and component assembly 2. Communication technologies product manufacturing 3. Repairs, purchasing and logistics 4. Metal chassis and plastic element manufacturing 5. Small factory solution 6. Computer system design	11,095
	Kutnå Hora	1. Server manufacturing and assembly 2. Service center for repairs 3. Data processing and hosting	
	Prague	1. Data processing and hosting 2. Solution for charging infrastructure	
Hungary	Komårom	Electronic and telecommunication equipment manufacturing	1,085
	Budapest	1. Intellectual property monetization 2. Management consulting	
Slovakia	Nitra	1. TV production 2. Circuit board printing	1,410

Source: Created by the authors based on reviewed literature.

via temporary worker agencies are from other CEE countries, such as Slovakia, Poland, Romania, and Bulgaria, and aged between 20 and 35.

According to an interview with a Czech labor union leader, Taiwanese companies create eight times more jobs than Chinese companies, with value added about 60% higher.[3] Taiwanese investments can also benefit smaller Czech parts suppliers. Although a positive influence on employment has been observed, several labor issues, such as workplace culture and flexible labor use, remain challenging for Foxconn according to a comparative study examining the company's production regimes in China and the Czech Republic (Pun et al., 2020).

China's actions and Chinese companies' investments in CEE

According to Matura (2021), Chinese levels of FDI in the CEE countries are modest, not comparable with Germany, the United States, or other Asian countries such as Japan and South Korea. Nonetheless, it is difficult to identify the real amount of Chinese investment in the region as figures from different sources (e.g., national government agencies, Chinese embassies, and national banks) are rarely consistent.

Loans constitute a significant part of China's CEE investments. Nearly 80% of its infrastructure-related projects are located in non-EU member countries of the western Balkans. Of these projects, 75%–85% of the cost is financed by Chinese loans, leading to significant debts compared to these countries' GDPs. For example, the percentages are 18% of GDP in Montenegro, 12% in Serbia, 10% in Bosnia-Herzegovina, and 7% in North Macedonia.

In the case of the Czech Republic, during bilateral visits by presidents Miloš Zeman and Xi Jinping between 2015 and 2016, seventeen agreements for eight billion euros in new Chinese investments in the Czech Republic were signed. CEFC China Energy was the biggest Chinese investor, accounting for US$510 million (AEI, 2021). Its CEO, Jianming Ye, was appointed as Zeman's personal adviser. However, CEFC China Energy got into financial and political trouble in 2018 and was saddled with 450 million euros in unpaid debts in the Czech Republic.[4] Its investments were taken over by China's CITIC Bank International. China's investment in the country reached its peak at US$350 million dollars in 2018. CEFC declared bankruptcy in March 2020.

The opportunities and prospects for Taiwanese hi-tech companies in CEE

In 2015, the president of Foxconn, Terry Gou, signed a memorandum of understanding (MOU) with the Czech prime minister, Bohuslav Sobotka, and promised an investment of about US$116 million by 2018, focusing on a partnership to promote automation, research, and data centers. Foxconn has thereby expanded its core investments in CEE from manufacturing activities to operations and businesses based on technology and innovation. According to the annual financial reports of the Hon Hai Group, seven technology-based subsidiaries were established in the Czech Republic after 2015, as shown in Table 8.2. Furthermore, Foxconn ranked among the top ten most significant investors in 2015 and 2016. Some US$154 million was invested, and 2,677 new jobs were created in Pardubice within these two years (CzechInvest, 2015, 2016).

The Czech Republic's ambition to develop data centers and Industry 4.0 technologies aligns with Taiwan's strengths in information science, communication technology, and smart machinery. Cooperation between the two countries provides

Table 8.2 Foxconn's technology-based subsidiaries in the Czech Republic

Country	*Company Name*	*Main Activities*
Czechia	Foxconn 4Tech s.r.o	Industry 4.0
	Foxconn DRC s.r.o	Computer Systems Design
	Foxconn Europe Digital Solutions s.r.o.	Metal products manufacturing
	VaultDX s.r.o	Software, information technology consulting, Data processing and hosting
	Trade DX, s.r.o.	Design and manufacture of servers, solid state drives and cloud data center-level switches
	SafeDX s.r.o	Data processing and hosting
	FITA Energy Solutions a.s.	Solution for charging infrastructure

Source: Created by the authors based on Hon Hai Annual Reports from 2015 to 2020.

an excellent basis for mutually beneficial outcomes. In particular, intensive foreign investment in CEE countries has led to a severe labor shortage and an urgent need for smart manufacturing and related technologies. Much business potential can be expected (TAITRA, 2018).

For further collaboration, four typical international cooperation models, including service agreements, joint research projects, intellectual property rights and technology transfers, and joint ventures, are all in place between the Czech Republic and Taiwan. In particular, the DELTA Program, managed by the Technology Agency of the Czech Republic (TACR), is a multinational joint research project aiming to facilitate cooperation in applied research and experimental development. As a cooperative agency for the initiative, Taiwan's Ministry of Science and Technology drew attention to ten Taiwanese projects that were selected from 2017 to 2020.[5] The subsequent DELTA 2 Program, for 2020 to 2025, has been included in the A-plus Industrial Innovation R&D Program of Taiwan's Ministry of Economic Affairs, with the key areas of next-generation communication, innovative IoT applications, smart manufacturing, and high-end medical material.

In recent years, bilateral investment forums, business matchmaking meetings, and summits of city leaders have become important interactions between Taiwan and CEE countries. Moreover, there are growing numbers of joint ventures with the Czech Republic, such as the SafeDX data center established in Prague in 2015 by Foxconn and the Czech investment group KKCG. More frequent technical exchanges and business collaborations between Taiwan and CEE countries can be expected.

In conclusion, Foxconn's global strategy has led to the evolution of the EMS industry, and its facilities and operations in CEE have highlighted the economic benefits of hi-tech companies' investments. The major events are illustrated in the following time line in Figure 8.3. The revenue growth of Foxconn in CEE indicates that Foxconn's move has led to positive results for the company, as shown in Figure 8.4.

Taiwanese EMS companies' investments in Southeast and South Asia

Alignment with Taiwan's New Southbound Policy

The intensification of the US–China trade and technology war after 2018 has driven many MNEs to relocate their production sites in China to Southeast Asia and South Asia, which are the key areas for the New Southbound Policy (NSP) of the Taiwan government.[6]

The trade relationship between Taiwan and the NSP countries has been steadily growing. Trade data for the subregion of the Association of Southeast Asian Nations (ASEAN) and the major recipients of investment from Taiwan's EMS companies are summarized in Table 8.3. Taiwan's bilateral trade values generally show some positive development after 2016, the launching year of the NSP, especially for ASEAN and India. According to ASEAN statistics, Taiwan was among ASEAN's

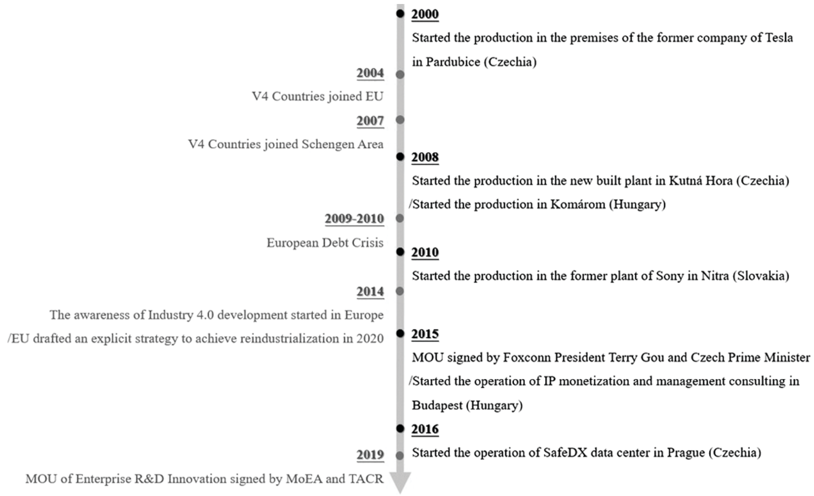

Figure 8.3 Twenty years of Foxconn in CEE countries.

Source: Created by the authors based on Hon Hai Annual Reports from 2002 to 2020.

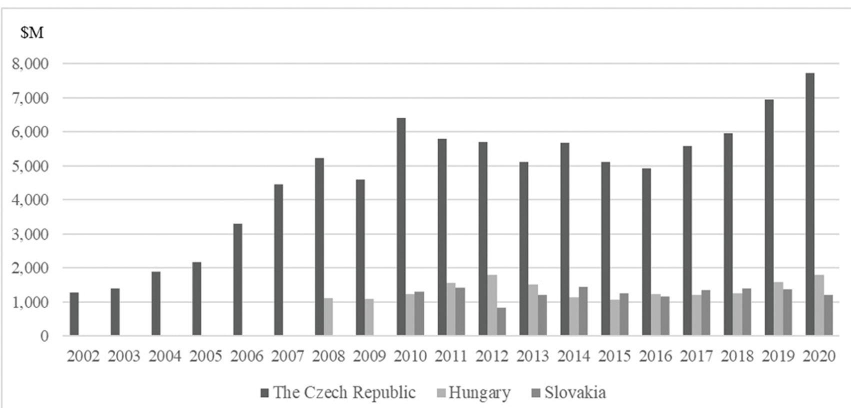

Figure 8.4 Foxconn's revenue in CEE by year (2002–2020) (in$ mil).

Source: Created by the authors based on Hon Hai Annual Reports from 2002 to 2020.

top ten trading partners in 2019, ranked seventh and ninth for imports and exports, respectively (ASEAN, 2020a).

For overall inward FDI flows to ASEAN, Singapore has been the country receiving the most. It is followed by Indonesia and Vietnam with an annual amount

Table 8.3 Taiwanese NSP-related trade relationships, 2010–2019 (in $mil)

	ASEAN		*Vietnam*	
	Trade	*CAGR*	*Trade*	*CAGR*
2010–2015	70,845–79,251	1.89%	8,815–11,986	5.25%
2016–2019	78,433–88,904	3.18%	12,259–16,054	6.97%
	Thailand		*India*	
	Trade	*CAGR*	*Trade*	*CAGR*
2010–2015	9,117–9,597	0.86%	6,465–4,811	−4.81%
2016–2019	9,308–9,771	1.22%	5,006–5,797	3.74%

Source: Created by the authors based on Bureau of Foreign Trade, Ministry of Economic Affairs, Taiwan.

of about US$20 billion and US$15 billion dollars respectively for the past three years. The inward FDI for Thailand, Malaysia, and the Philippines are also significant, but there is serious fluctuation, with some peaks of more than US$10 billion dollars per year (ASEAN, 2020a). Manufacturing is now the largest sector, from less than 13.4% in 2012 to 35% in 2019 (ASEAN, 2020b).

Taiwan was ranked 10th in terms of ASEAN's inbound investors in 2019 (ASEAN, 2020a). Taiwanese investments, concentrated in Vietnam and Thailand, have been dominated by the electronics manufacturing industry. According to the Investment Commission, Ministry of Economic Affairs, Taiwan, the investment amounts in 2019 for ASEAN, Vietnam, Thailand, and India were US$2,404, US$915, US$328, and US$70 million dollars respectively. In particular, the average labor cost per year in China reached about US$8,700 dollars in 2021, with an annual growth rate of 8.2% (Chinese National Bureau of Statistics, 2022). Together with the mounting uncertainty related to the US–China trade and technology war, Foxconn and the so-called big five EMS companies (Quanta, Compal, Wistron, Pegatron, and Inventec) have all accelerated the relocation of production capacity from China to Vietnam and Thailand.

At the same time, Taiwanese investments in China have substantially decreased. The average annual investment amount fell from US$12.03 billion for 2010 to 2015 to US$7.89 billion for 2016 to 2019. The share of Taiwan's overall outbound investments fell from 66.15% to 40.98% over the period, according to the Investment Commission at the Ministry of Economic Affairs, Taiwan.

As for Chinese investments in ASEAN, China was ranked sixth for FDI in ASEAN in 2019 (ASEAN, 2020a). According to ASEAN figures, most investments were made by state-owned enterprises, mainly in real estate, commercial services, and construction industries (ASEAN, 2021).

For Taiwan's outward investments, there has long been a serious concentration in China, accounting 84% in 2010 against 6% for ASEAN, according to the Investment Commission, Ministry of Economic Affairs, Taiwan. However, mainly owing to the recent investments of Taiwanese EMS companies in

Southeast Asia, the shares for China and ASEAN were 32% versus 31% for 2021. The three countries – Vietnam, Thailand, and India – receiving the most significant investments from Taiwan's high-tech companies are assessed in the following subsections.

Vietnam

FDI policy and the business environment in Vietnam

According to Vietnamese investment laws adopted in 2015, investments in specific industries can enjoy two to four years of corporate income tax reduction, including those in high-tech electronic components, semiconductor technology, and computer software (ITRI, 2020). Although Vietnam's corporate income tax reduction is smaller than in Thailand and other ASEAN countries, Vietnam has the largest number of free trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and agreements with the EU, the UK, and other large economies (KPMG, 2021). In addition, a relatively low minimum wage compared with Thailand[7] and geographical proximity to China make it very attractive to Taiwanese companies.

Taiwan and China are both major source countries for Vietnam's inward investment. By the end of 2020, Taiwan was ranked fourth, with an accumulated investment of US$33.7 billion, while Chinese investment in Vietnam reached US$18.4 billion, ranked seventh. South Korea, Japan, and Singapore are the top three countries, with investments ranging from US$56 to 70 billion dollars.[8]

Although Vietnam has attracted a lot of foreign investment in recent years, complete supply chains and good technical skills are still lacking. Therefore, the Vietnamese government launched a new version of its investment promotion law in 2020, focusing on products or services that facilitate the formation of industrial value chains that support the establishment of innovative research and development centers (ITRI, 2020).

Taiwan's electronics investments and their impact on Vietnam

The major investments of Taiwanese EMS companies are summarized in Figure 8.5, including Foxconn and the big five. In addition, several so-called hidden champions[9] from Taiwan for electronic parts and components have made substantial investments. For example, I-sheng, with an early investment dating from 2007, is the world's largest power cable supplier, and Merry is a world leader in acoustic components.

Taiwanese companies have earned a better reputation in Vietnam than their counterparts from China. According to a survey of 120 Vietnamese executives (TAEF, 2020), Taiwanese companies tend to be positively evaluated in Vietnam, ranked second only to those from Japan. In addition, 80.8% of respondents believed that Taiwanese companies could provide employment opportunities and 54.2% expected investment capital.

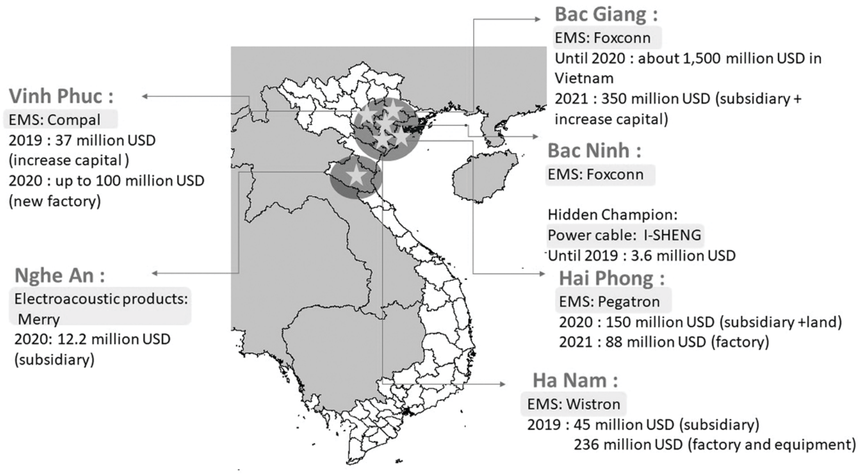

Figure 8.5 Major electronics investments by Taiwanese companies in Vietnam.

Source: Created by the authors based on company reports and MOPS (Market Observation Post System).

On the other hand, according to another survey, China is seen in ASEAN as powerful but also perturbing (Yusof Ishak Institute, 2020), with 76.3% of Vietnamese and 86.5% of Thai respondents agreeing that China is Southeast Asia's most influential economic power. However, 80.2% and 75.9% of the respondents in Vietnam and Thailand were concerned about China's growing economic influence, contrasted with only 22.2% and 40% worried about US economic influence.

Thailand

FDI policy and the business environment in Thailand

Thailand has a relatively sound business environment. Among 190 economies, Thailand was ranked 21st in 2019 for ease of doing business, based on indices including tax, power supply, and dealing with permits (World Bank, 2020). Among other Asian countries attractive to investors, China and Vietnam were ranked 31st and 70th, respectively.

For approved investment amounts in Thailand within the period of 2016 to 2020, the annual averages were about US$1.4 billion and US$400 million for China and Taiwan respectively, indicating a more substantial economic influence from China. Nonetheless, Taiwan is still a significant investor in Thailand, ranked fifth in 2020 (Thailand BOI, 2021).

Thailand's government has refined its policies for promoting investment. Starting from 2015, corporate income tax can be exempt for up to eight years for specific industries. In addition, for investment in a few industries in the Eastern Economic

Corridor (EEC), corporate income tax exemption can be extended up to 13 years. Launched in 2016, Thailand 4.0 is one of the most important components of its drive for industrial transformation, from traditional manufacturing to innovation-oriented technologies, such as biotechnology, digital technology, nanotechnology, and advanced materials (ITRI, 2020).

Taiwan's electronics investments and their impact on Thailand

As summarized in Figure 8.6, the large-scale investments of Taiwanese electronics companies in Thailand are concentrated near the Bangkok metropolitan area. For example, Quanta has invested more than US$156 million in Chon Buri Province, one of the selected provinces for the EEC initiative. Foxconn also signed an agreement for a joint venture with PTT Public Company Limited in September 2021. The investment is worth between US$1 and 2 billion dollars for a plan to build manufacturing sites for electric vehicles, most likely in the EEC area as well.[10]

Thailand is now second only to China in hosting production sites for Taiwan's printed circuit board (PCB) industry, a world leader with one-third of global output in 2020.[11] Chin-Poon, APEX, and APCB are the best-known PCB companies, focusing on consumer electronics and automotive applications.

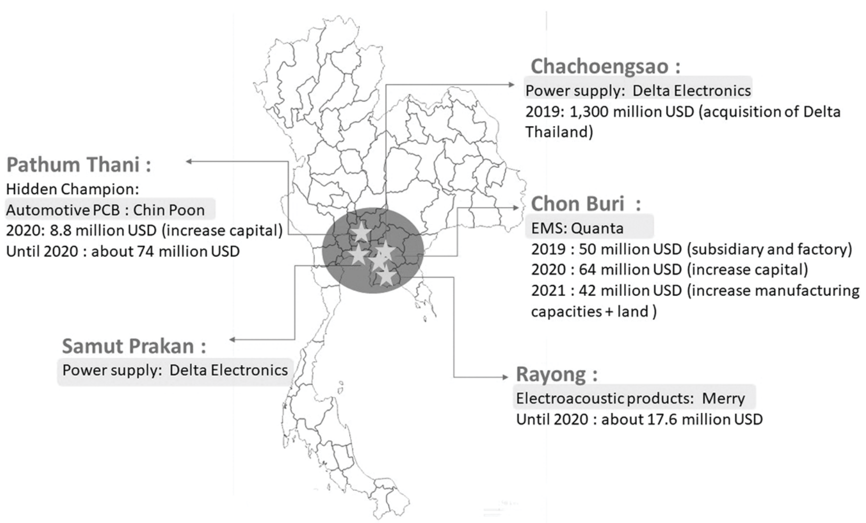

Figure 8.6 Major electronics investments by Taiwanese companies in Thailand.

Source: Created by the authors based on companies reports and MOPS (Market Observation Post System).

India

FDI policy and the business environment in India

The Indian government's current policies are heavily focused on the mobile industry. To position India as a global center, the government launched the National Policy on Electronics (NPE) in 2019 and other prominent initiatives, such as the Production Linked Incentive (PLI), the Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS), and the Modified Electronics Manufacturing Clusters Scheme (EMC 2.0), as highlighted by ITRI (2020). In particular, based on the PLI policy, a financial incentive of approximately US$5.45 billion has been provided for five years to promote domestic electronic manufacturing investment and enhance electronics value chains.[12] In addition, the Phased Manufacturing Program (PMP) has been implemented in stages since 2015 with a tariff policy restricting the import of smartphones from China and promoting the concept of "Made in India."

Taiwan's electronics investments and their impact on India

As the second-largest mobile communication market globally, India has vast business potential given its large population and low penetration rate of mobile devices. Along with Apple's shift of supply chains from China to India, Taiwanese EMS companies, such as Foxconn, Wistron, and Pegatron, began to gain ground in India's mobile device manufacturing business. According to the Investment Commission at the Taiwanese Ministry of Economic Affairs, more than 100 investments have been made by Taiwanese companies in India[13] and these companies have gradually formed more complete supply chains. The key EMS-related investments are depicted in Figure 8.7.

As shown in Figure 8.7, Foxconn has invested the most in India, given Apple's intention to relocate 7%–10% of its production capacity in China to India.[14] After selling its factory in Kunshan, China, Wistron began to shift its mobile device business to India, in cooperation with India's Optiemus Electronics.[15] Pegatron planned to build a new factory with mass production to begin in 2021, with job opportunities estimated at about 14,000.[16] Pegatron also signed an MOU with Tamil Nadu to accelerate its subsequent arrangements in India. These three leading Taiwanese EMS companies have participated in India's PLI programs with the planned investment of hundreds of millions of dollars in the next five to six years. All three companies are involved in the financial reward program.

Prospects for bilateral collaboration development under the NSP

The NSP is aimed at establishing a "sense of economic community" and creating a new cooperation model that is mutually beneficial. As a result, various action plans have been implemented. For example, the Taiwanese government has adopted three major credit guarantee funds to finance overseas development and has signed new

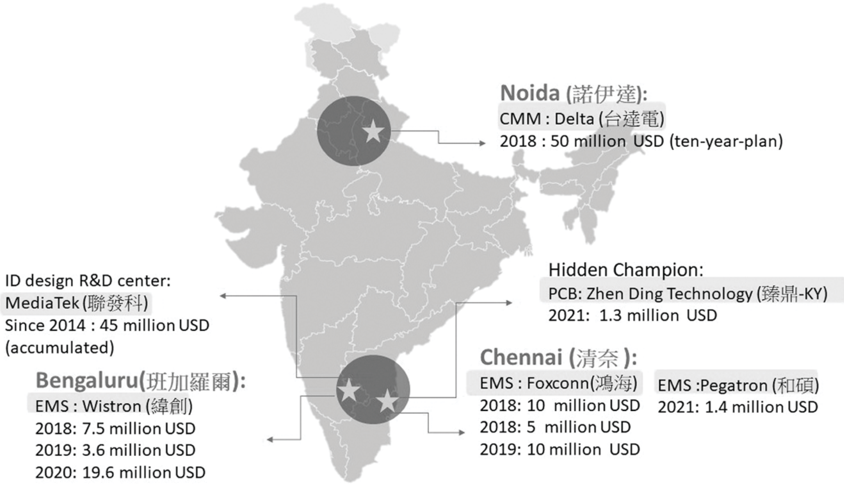

Figure 8.7 Taiwanese companies' major investment in India for mobile devices.

Source: Created by the authors based on company reports and MOPS (Market Observation Post System).

versions of bilateral investment agreements to enhance the protection of Taiwanese companies.

For NSP-related countries, the initiative has also led to significant job creation. The statistics for the three selected countries are summarized in Table 8.4. In many cases, Taiwanese companies offer higher than the national minimum wages in these countries.

To further strengthen bilateral relationships, Taiwan also committed to hosting more international students from the 18 NSP countries, with the percentage of total inbound students growing from 27.65% in 2016 to 56.47% in 2020. Vietnam has sent the most international students, accounting for 17.8% (17,534 students) of total inbound students in 2020 compared to a share of only 4.3% in 2016.[17]

Global impact of Taiwan's semiconductor foundry services

Development of semiconductor foundry services

The semiconductor foundry business model, pioneered by TSMC in the late 1980s, has outgrown the overall semiconductor market over the last several decades. In particular, given the emerging trend of fabless semiconductor businesses (e.g., Qualcomm, Broadcom, Nvidia, MediaTek, and AMD), many companies now rely on foundries for chip manufacturing. The rising fab costs have incentivized vertically integrated IDMs (integrated device manufacturers, such as NXP, Analog Devices, and Maxim) to go fab-lite. In addition, the Outsourced Semiconductor

Table 8.4 Job creation by Taiwan's electronics companies in three NSP countries

Location	*Northern Vietnam*				*Central Vietnam*	*Southern Vietnam*	
Company	*Foxconn*	*Compal*	*UMEC*	*PHIHONG*	*Merry*	*AOET*	
Main Business	EMS	EMS	Power Supply	Power Supply	Acoustic Components	Optical Lens	
Employee	53000	5623	1000	705	1462	500–1000	
Wage Ratio	1.33	1.36	-	-	1.14	-	
Location	*Thailand*				*India*		
Company	*Quanta*	*Merry*	*Delta*	*APEX*	*Foxconn*	*Wistron*	*Pegatron*
Main Business	EMS	Acoustic Components	Power Supply	PCB	EMS	EMS	EMS
Employee	1928	672	13801	7363	25000–50000 (expected)	1000 (estimated)	14000 (expected)
Wage Ratio	1	1	1.3	-	-	-	-

Source: Created by the authors based on Companies' CSR Report (wage ratio = company wage / local minimum wage).

Assembly and Test (OSAT) companies, focusing on so-called backend processes, are an essential part of IC supply chains. In terms of upstream partners, the equipment makers are crucial for advancing fabrication technologies and productivity. In addition, support from the companies for photomasks and chemicals is a prerequisite for efficient fabrication processes. The finished ICs are distributed by major channel players or moved to the downstream manufacturing service providers for inclusion in a wide range of products. These players at different supply chain stages constitute a highly complex ecosystem, which has evolved with a shift of focus to Asia (Rasiah & Wong, 2021; Kamakura, 2022). The current major companies in the global semiconductor industry are summarized in Figure 8.8, with Taiwanese companies underlined.

TSMC held 55% of the global market in foundry services in 2020 and the top five players represented over 85% of global foundry revenue (Samsung 17%, UMC 7%, GlobalFoundries 4%, SMIC 5%). Driven by strong demand for both mature and advanced technologies, and Intel's potential outsourcing, the new addressable market (TAM) for foundries is very promising.

In particular, companies are restricted in the acquisition of ICs requiring advanced processes (below 28nm). The key players are limited to TSMC and Samsung, with some future potential for Intel. TSMC is the clear leader, with a technology advantage leading to most of the growth of the TAM. Lu et al. (2021) forecast that TSMC's 3nm revenue will reach US$2.0 billion in 2022 and US$12.4 in 2023, accounting for 10% of the overall foundry TAM in 2023. In addition, revenue from 5nm/4nm will be US$16.5 billion and US$19.7 billion in 2022 and 2023. In other words, TSMC's most advanced technologies may command 25% of the global market for foundry services by 2023. Samsung will hold a steady market share over the long term given its status as the only second source for advanced

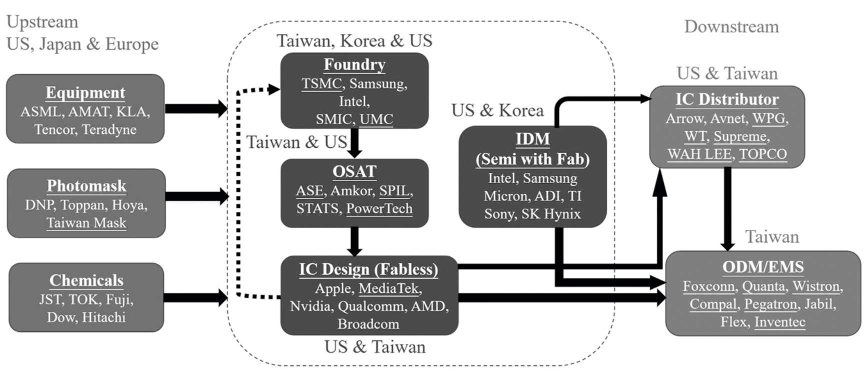

Figure 8.8 Supply chains and the global semiconductor industry.

Source: Created by the authors based on Morgan Stanley Research and Digitimes.

processes. Intel's market share impact will diminish by 2023, and its future ups and downs will depend on its process technology and service capability development.

The rest of the players are mostly fighting an uphill battle due to a lack of leading-edge technology, the critical area responsible for substantial growth. As a result, most companies have gradually lost share over the last ten years. GlobalFoundries lost the biggest share after AMD moved to TSMC in 2019 for the 7nm process.

TSMC's global competitiveness

TSMC now controls 84% of the market for chips in the most advanced semiconductor manufacturing technologies, which provide the smallest and most efficient circuits for the world's biggest technology brands, from fast communication networks to cloud computing. As highlighted in Figure 8.9, the leading technological specifications and the comprehensive technology profile have further sustained its leading position. It may not be an easy task for Samsung, the only player also with available advanced processes, to gain market share from TSMC and, at the same time, to have to defend against Intel's potential entry. Its opportunity depends on its production yield improvement for advanced processes and the successful transition to the Gate All Around (GAA) technology for 3nm. Finally, Intel would first need to demonstrate to its customer base that it is indeed capable of providing industry-leading process technology (i.e., at least positioned in line with TSMC and Samsung). The largest Chinese foundry company, SMIC, has fallen behind the competition by at least one generation.

To further ensure its long-term advantages, TSMC announced it will spend US$100 billion on capacity expansion in 2021–2023 to cope with the expected stronger and longer semiconductor sector cycle, mainly driven by 5G/HPC/AI/Automotive. The move also aims to regain customers' trust in the foundry service provider's determination to address the capacity shortage issue. Capital intensity reached 55% in 2021, much higher than the average in the last seven years of 35%. Meanwhile, significant capital investments are also expected for other foundry companies; however, they are not comparable with TSMC's aggressive capacity expansion. The capital expenditures of TSMC and Samsung after 2010 are presented in Figure 8.10 to illustrate the increasing gap.

Overseas investments of Taiwan's foundry industry

Given the highly efficient cluster in Taiwan, Taiwanese semiconductor companies have been relatively conservative in making foreign investments, as summarized in Figure 8.11. Reflecting this situation, 97% of TSMC's long-term assets (US$57 billion) remain in Taiwan, including all of its most advanced fabs. In addition, 90% of its 56,800 staff, more than half with an advanced degree, are based in Taiwan.

TSMC made a formal statement at its institutional investors' conference on July 15, 2020, about building chip manufacturing facilities in foreign countries. Three guidelines were reiterated, namely: customer demand, operational efficiency, and cost economy. First, customer demand must be foreseeable for five to ten years. In

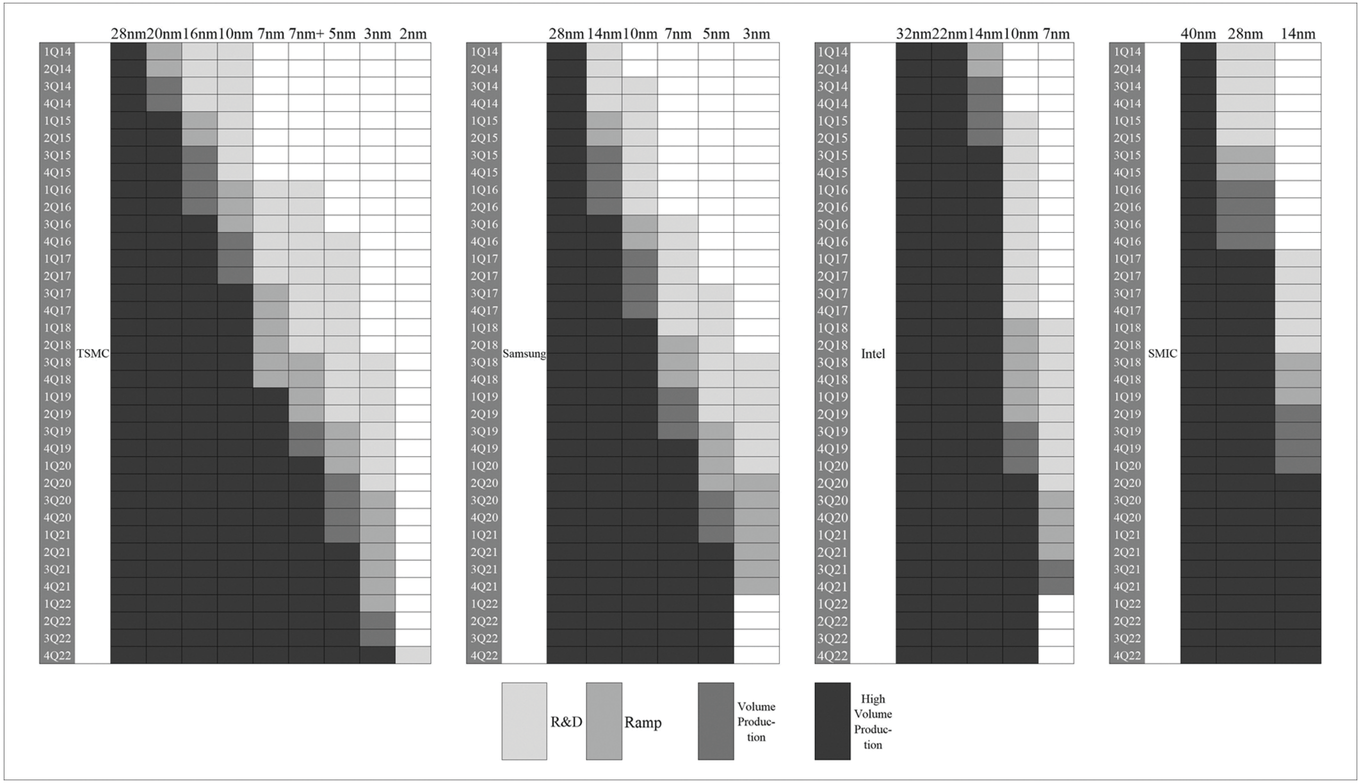

Figure 8.9 Progress of advanced processes for major foundry services providers.

Source: Created by the authors based on the data of Goldman Sachs Global Investment Research.

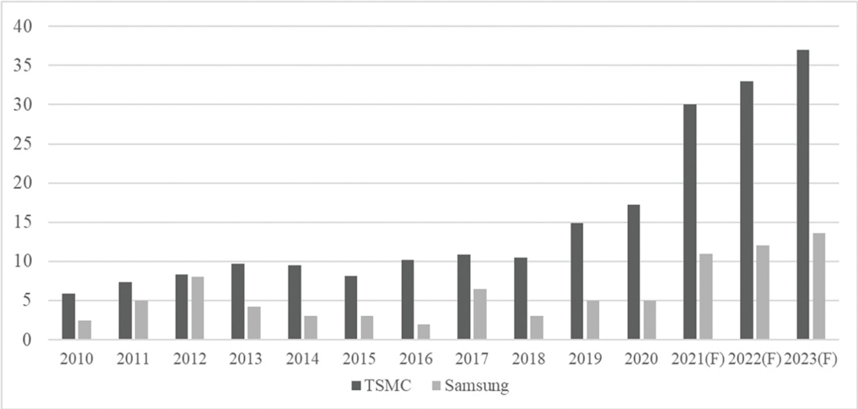

Figure 8.10 Elevated foundry capital expenditure, TSMC versus Samsung (in $bn).

Source: Created by the authors based on TSMC reports and Goldman Sachs Global Investment Research.

Figure 8.11 Historical and potential investments by Taiwan's foundry services.

Source: Created by the authors based on TSMC and UMC reports.

addition, a sound semiconductor cluster is required in the local area for the potential site under consideration to keep up operational efficiency. Finally, the various components of fixed costs, such as water, electricity, land, and tax rates, should be reduced, probably through substantial incentive programs.

Global engagement and the future prospects for Taiwan's semiconductor industry

The semiconductor industry has become a strategic focus of many countries worldwide and especially central to the US–China trade and technology war (Bown, 2020; Capri, 2020). As a result, the US took steps aimed at restoring its leadership in semiconductor manufacturing when it passed the Creating Helpful Incentives to Produce Semiconductors (CHIPS) for America Act.[18] Federal incentives were increased to enable advanced research and development, secure reliable supply chains, and ensure long-term national security and economic competitiveness.

In response to the act, TSMC announced on May 15, 2020, that it was planning to build a fab in Arizona, utilizing its most advanced 5nm technology. Construction was scheduled to start in 2021, with production foreseen to begin by 2024. TSMC's total spending on the project will be approximately US$12 billion from 2021 to 2029. TSMC believes the fab will enable leading US companies to fabricate cutting-edge semiconductor products within the US, including military-related chips.[19]

Japan has an almost monopoly position in the market for semiconductor equipment and materials that are required for many chip manufacturing processes. The Japanese government has been trying to cooperate with foreign foundry service providers, such as TSMC, to further strengthen its advantages in developing even more innovative manufacturing equipment and materials.[20] This intention has led to an existing joint 3DIC R & D center in Japan. In addition, TSMC also announced on October 14, 2021, that it would build a fab in Kyushu, Japan, in 2022. The facility will utilize the relatively mature 22/28 nm special processes and will start production before 2025. The new company JSAM (Advanced Semiconductor Manufacturing, Inc.) will be a joint venture with Sony. It is estimated that the Japanese government will provide more than US$3.5 billion in financial support.

Germany, France, the Netherlands, and 17 other EU countries signed the Declaration: A European Initiative on Processors and Semiconductor Technologies. They are planning to invest 145 billion euros in the design and production of customized processors and semiconductors in the next two to three years, and at the same time striving to introduce the 2nm advanced manufacturing process in the hope of increasing their global share of wafer production from the current 10% to 20% by 2030. At the moment, no firm response has been made by TSMC to this proposal.

For China, currently in the 14th Five-Year Plan, RMB 10 trillion (about US$1.6 trillion) will be invested to support the development of the third-generation semiconductor industry. China intends to build its own semiconductor ecosystem without any involvement from the West or from Japan, Korea, and Taiwan. However, Chan et al. (2019) pointed out that Chinese fabs are still heavily dependent on equipment and material from foreign companies.

Broader and deeper global engagement by Taiwan's semiconductor industry seems inevitable. TSMC's recipe is not something Chinese companies can replicate. The key ingredient is trust. With the company slogan of "everyone's foundry," TSMC has built a remarkable ecosystem of trusted partners that share their intellectual property to build their proprietary chips. At the same time, leading manufacturing equipment companies, such as ASML and Applied Materials, have been TSMC's close partners that have jointly extended the limitations of Moore's Law[21] multiple times, through offering cutting-edge chip-making tools. TSMC's aim is to continue to play a pivotal role in maintaining the platform's integrity and momentum.

Conclusions and implications

The chapter focuses on the real-world trade and investment of Taiwan's high-tech industries and their dominant global role. The countries under investigation are different from those with a tendency to switch diplomatic relations between Taiwan and China, as discussed in previous chapters. However, the countries without diplomatic ties are still crucial for developing Taiwan's foreign relations. The first part addresses the subsector of the EMS industry, with a long history of production in China, and analyzes its investments and operations in two geographic areas, Central and Eastern Europe (including the Czech Republic and Hungary), and Southeastern and South Asia (including Vietnam, Thailand, and India). The second part is related to the semiconductor industry, sometimes referred to as the Silicon Shield for Taiwan because of its geostrategic importance. In particular, the company in focus is the leading global foundry service provider, TSMC, which has received global attention due to the worldwide chip shortage.

Taiwan's government and hi-tech companies have responded to geopolitics and business environment evolution by taking various actions (Lee, 2022). However, more interaction to facilitate better-integrated government policies and business strategies is a great need. The importance of participating in regional economic agreements and initiatives (e.g., RECEP and CPTPP) cannot be overemphasized. However, the strong objection from China will lead to significant uncertainty on their realization. Although interference from China is still unavoidable, the following policy implications and recommendations under a bilateral mechanism are highlighted.

To better support the global expansion of Taiwanese high-tech companies and relate it to progress in foreign relations, the Taiwanese government needs to align its strategies and policies with business decisions made by the private sector. Its approach has been dramatically different from the one adopted by China, which utilizes the resources of national agencies, state-owned enterprises as well as malleable private companies. Although the diplomatic relationship between Taiwan and other countries was not a decisive factor in many high-tech companies' past investments (e.g., Foxconn's presence in the Czech Republic), partnership, and synergy between the Taiwanese government and high-tech industries could be a key for future success.

Most countries receiving investments from Taiwan's high-tech sector are set on progressing from the manufacture of finished goods to technological development. Their development strategies fit well with Taiwan's strength in technology. Therefore, the Taiwanese government and such governments could launch joint programs to facilitate technological cooperation and transfer, which would help the transformation of industries and enhance the position of Taiwanese EMS companies against global competitors. Several existing collaboration programs between CEE countries and Taiwan serve as a good starting point to implement future projects that emphasize the application and commercialization of technologies.

Investment by Taiwanese EMS companies in South and Southeast Asia has been surging lately due to the trade and technology war between the US and China and the launch of Taiwan's New South Bound Policy. Nonetheless, China's critical role as the "world's factory" is unlikely to be challenged in the near term, given that restructuring supply chains for any EMS company is challenging. The joint development of science-based industry parks is a practical approach by Taiwan to develop relationships with other governments that want to develop their electronics industries, particularly given the opportunities arising from US-China tension. Such a move also offers valuable support to Taiwanese EMS companies keen on building industry clusters overseas. Taiwan's New South Bound Policy is a useful existing platform.

The Taiwanese government has done very little to enhance relations through official development assistance (ODA) with countries where it lacks diplomatic ties. Given the globally dominant power of Taiwanese EMS companies, the Taiwanese government could provide ODA resources to support digital infrastructure projects, leading to more solid relations than can be achieved by the private sector alone.

For the semiconductor foundry service, Taiwanese companies' advantages are clear and are expected to be maintained for some time. In particular, with unprecedented levels of investment (US$100 billion in three years), TSMC will continue to dominate the market in advanced manufacturing technologies. Given the highly interactive ecosystem, Taiwanese semiconductor companies need to expand their operations in foreign countries even though the local cluster has been highly efficient. Concern over the economic and national security implications of semiconductor supply chains has been expressed by many countries. Meanwhile, many governments have tightened controls regulating dual-use exports, such as the US regime under the Export Control Reform Act[21] of 2018. Therefore, the Taiwanese government needs to work actively with other governments to resolve the current chip shortage crisis, harmonize the future operations of semiconductor supply chains, and facilitate the formation of a global semiconductor alliance. The two recent investments by TSMC in the US and Japan are good examples of a joint effort by government and private companies.

To sustain industrial advantages, especially for the advanced manufacturing technologies of foundry services, the Taiwanese government needs to support the local semiconductor cluster's continuous growth by hosting more advanced manufacturing facilities and attracting more expertise and capital. The strategies and policies should aim to maintain the integrity and momentum of the semiconductor manufacturing platform based in Taiwan to serve the various players of the global semiconductor ecosystem.

Notes

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17 https://stats.moe.gov.tw/statedu/chart.aspx?pvalue=36
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19 https://asia.nikkei.com/Business/Tech/Semiconductors/TSMC-in-Arizona-Why-Taiwan-s-chip-titan-is-betting-on-the-desert
20 Initially named after Gordon Moore, the co-founder of Fairchild Semiconductor and Intel, Moore’s law is the observed trend that the density of transistors in ICs doubles about every two years.
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Conclusion

China's promise fails

Chien-Huei Wu

The economic and subsequent political rise of China has presented a significant challenge to international relations, as the nature of China – whether exploring status quo power or revisionist power – is hotly debated. Taiwan sits at the forefront of a liberal democratic world that is confronted with China's expansionist ambitions, and the diplomatic competition between Taiwan and China constitutes a prime example of how China extends its sphere of influence with the support of its growing economic and political might. The aim of squeezing international space is amplified by the turn in China's foreign policy, from "hiding its capabilities and biding its time" to the pursuit of "the great rejuvenation of the Chinese nation," as instrumentalized by major foreign policy initiatives, including the Belt and Road Initiative. The promise of economic benefits has attracted many developing countries, including some of Taiwan's former diplomatic partners, to economically engage with China in close partnerships. Concomitantly, a more confident – and at times emboldened – China results in more assertive and aggressive foreign relations, as evidenced by the "wolf warrior diplomacy." Economic coercion constitutes one of the policy tools China employs when it feels its all-encompassing national security is threatened, its self-defined core interests are challenged, or its foreign policy objectives are compromised.

This book, built upon interdisciplinary expertise and collaborative efforts, strove to investigate China's recent economic statecraft, as exercised in the context of its diplomatic competition with Taiwan. Namely, this book examined how China exercises its economic statecraft in instrumentalizing trade preferences, economic coercion, and foreign aid to achieve its foreign policy objectives in general, as well as how China combines various policy tools to attract Taiwan's diplomatic partners to switch recognition in its favor and dissuade third countries from engaging with Taiwan. With the help of the econometric method, supported by qualitative analyses, we vetted and verified China's promise of economic benefits, its threat of economic coercion, and the perils of its foreign aid. We looked at the critical regions where the diplomatic competition between Taiwan and China is, or was, fierce. In addition to the competition over formal diplomatic ties, we examined how far informal relations can go in cementing Taiwan's recent closer interactions with Central and Eastern European countries. Moving beyond conventional economic

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statecraft, we explored how Taiwan's advantage in technology sectors can be translated into leverage to advance its economic diplomacy.

We found that China has aptly exercised its economic statecraft in instrumentalizing different policy tools, whether independently or collectively, to achieve its policy objectives. Foreign aid is predominantly provided to developing countries to expand and cement China's spheres of interest; trade preferences are used as a tool to allure Taiwan's diplomatic partners; and economic coercion is largely aimed at democratic countries that are primarily China's diplomatic partners. These policy tools are interlinked and contribute to the strengthening of China's leverage in imposing its will on foreign countries. When a country looks to China's foreign aid to overcome its budgetary constraints, it turns out that it is stepping into a debt trap. When a foreign country switches its diplomatic allegiance to China, vying for trade preferences to boost its domestic economy, that country's economy eventually becomes reliant on China, and the trade deficit with China sharply increases. Economic dependence and heavy debt reliance provide China with the opportunity to exercise economic coercion and shape or change the policymaking agenda of a foreign country.

Moreover, China's foreign aid comes with perils. The non-conditionality of Chinese aid entrenches the power of political leaders without contributing to democratic development or accountability. The unconditional nature of Chinese aid enables political elites to shake off restrictions over their power and engage in rent-seeking activities. China's aid results in the deterioration of a number of social outcomes, such as gender equality, freedom of speech, primary education enrollment, and female employment. This book, based on empirical analysis and consistent with prior research, finds that Chinese aid results in detrimental political and social consequences in recipient countries.

Further, China's promise of trade preferences to boost the economic growth of switching countries is frequently unrealized. One common result is that although a switching country's exports to China increase, China's exports to that switching country increase even more significantly. This trading pattern results in a surging trade deficit and undermines the long-term economic stability and development of the switching country. Econometric analyses support the evidence that a switching country, compared to its corresponding control country, does not enjoy better economic growth after switching its diplomatic allegiance to China. At this point, it is worth noting that the decision of political elites to switch diplomatic relations is not always or purely based on an economic rationale for better economic growth, and after diplomatically switching, whether the promise of better economic growth materializes is no longer a major concern.

The threat of economic coercion may sometimes be overestimated. Whether China can successfully impose its will on a foreign country and compel it to change a given policy is reliant on both the power structure (in terms of asymmetry) and economic dependence. If a foreign country is heavily reliant on China, either as a market for exports or a source of aid, it is more vulnerable to China's economic coercion. However, if a third country is economically more self-sufficient or less dependent on China, it can withstand greater pressure. Thus, the first and foremost task for a country is to diversify its economy and avoid economic dependence on China. In several cases, China has not succeeded in changing the given policy of a foreign country, and exports to China, whether total trade volume or an affected sector, eventually increased instead of decreasing. Moreover, the collective measures of the liberal democratic world play a key role in shielding the affected country from China's economic coercion.

Case studies on three key regions of the battlefield of China and Taiwan's diplomatic competition reveal contrasting pictures. The diplomatic competition between Taiwan and China on the African continent is almost completed, as Eswatini remains the only country that maintains diplomatic ties with Taiwan. Therefore, Taiwan–Africa relations rely heavily on people-to-people diplomacy and a civil society, and enterprises and grassroots groups also play a key role. In terms of economic performance, those countries that switched to China did not necessarily experience better economic growth, and Malawi, which is suffering through a surging trade deficit with China, is a case in point.

Latin American and Caribbean countries and Oceania are regions where diplomatic competition between Taiwan and China is still fierce, and China has gained greater ground over the past two decades, especially since 2016, when Tsai Ing-wen was sworn into office. China's footprint in these two regions has aroused concerns among the United States and regional countries, including Australia. The econometric analysis shows that switching diplomatic relations does not necessarily lead to stronger economic performance. In the cases of Costa Rica, Dominica, and Grenada, the changes in economic performance were worse than for their Taiwan-aligned counterparts, and the increasing trade deficit with China was among the key factors. In addition, the empirical results demonstrate that being economically worse off than a China-aligned comparison country does not necessarily motivate Taiwan's partners to switch. El Salvador, Honduras, and Nicaragua were the only cases that showed strong evidence of a Taiwan-aligned country abandoning Taipei because their change in economic performance was worse than that of a China-aligned neighbor. Paradoxically, some countries that recently switched to China, such as Panama, realized better economic performance when aligned with their Taiwanese counterparts. Clearly, non-economic factors play a role for countries in switching their diplomatic recognition. The recent surge of the "pink tide" in Latin American countries, with the victory of left-leaning political leaders, is a factor.

China's engagement with Oceanic countries is a rather new phenomenon, but it arouses great concern among neighboring countries due to security and strategic interests. China's engagement with Oceania is labeled South–South cooperation, but this assertion is unfounded, as an economy as big as China cannot be viewed as a developing country or as part of the South. The rhetoric of "non-interference" deserves closer scrutiny as well, since China's interference in the domestic politics of Oceanic countries is nothing new. In terms of economic performance, with the help of the econometric method, we find that for small islands reliant on fisheries, aligning with Taiwan is a sound economic choice and can be beneficial to stable economic growth. Although resource-rich countries tend to align with China due to the huge Chinese market, this nonetheless makes them susceptible to Chinese economic coercion.

In Central and Eastern European countries, we looked at Poland, Hungary, and the Czech Republic (CEE3). Whereas the political environment between Taiwan and Poland and the Czech Republic has significantly improved in recent years, a formal diplomatic relationship is not envisaged, at least in the near future. Trade and investment activities between CEE3 on the one hand and Taiwan and China on the other remain limited, regardless of the latter two having heavier economic footprints in the region over the past two decades. If Taiwan wishes to translate its economic engagement with CEE3 into a political and diplomatic asset, investment in the high-technology sector, rather than labor-intensive assembly or production sites, is key.

This then links to our technology chapter, which examines whether and how Taiwan's technology sector can contribute to diplomatic leverage. Unlike China's state capitalism, Taiwan's enterprises are predominantly private businesses that operate using market logic and keep a safe distance from the government. To some extent, government incentives may promote or encourage their trade and investment activities, but only when these incentives correspond with their economic considerations. Over the past two decades, Taiwanese electronics manufacturing services have migrated out of China to Southeast Asia, as well as South Asian and Central and Eastern European countries, and foundry services are under the spotlight given the recent chip crisis. These developments present an opportunity for the technology sectors and the Taiwanese government to cultivate a cooperative partnership, and the government may use this opportunity as leverage in economic diplomacy, such as the negotiation of a bilateral investment agreement. As economic security and global supply chain resilience become key concerns for most countries, a cooperative partnership between the Taiwanese government and its enterprises, including but not limited to the technology sectors, will be of great value to Taiwan's economic diplomacy.

Looking forward, diplomatic competition between Taiwan and China will persist, and China may continue to have the upper hand given its economic and political might. However, as we detailed in this book, China's promises of trade preferences and economic benefits rarely materialize, and importantly, trade with China generally results in a country's growing trade deficit with China and eventually proves detrimental to that country's economic health. China's foreign aid comes with the peril of social consequences and can introduce a debt trap. Economic dependence on China invites economic coercion, which makes a foreign country more vulnerable and can be difficult to resist. A critical juncture in Chinese foreign diplomacy is the turn from "hiding its capabilities and biding its time" to the pursuit of "the great rejuvenation of the Chinese nation," as advanced by Xi Jinping. Xi's Chinese dream and aggressive foreign policy belie the claim for "South–South" cooperation and solidarity among the developing world, as China, in view of its economic and political might, can hardly qualify as a developing country. The rhetoric surrounding non-interference is also groundless. China's "wolf warrior diplomacy" has interfered in the domestic policies of many countries around the world, has undermined their democracy, and has challenged existing political stability. The threat of China to the liberal international world will be even more compelling in the years to come given Xi's keen pursuit of his dream of "the great rejuvenation of the Chinese nation." Additionally, the diplomatic competition between Taiwan and China will eventually involve US–China strategic competition, geopolitics, and global and regional security.

Appendices

Appendix A DID results for Africa

Treated country	*Control countries*			
	Year		*DID*	*P> | t |*
Burkina Faso	2006	Mozambique	−0.171	0.014**
Central African Republic	1998	Madagascar	0.020	**0.574**
Chad	2006	Guinea-Bissau	0.358	0.000***
Eswatini	2006	Tunisia	0.013	**0.767**
Gambia	2006	Guinea-Bissau	−0.109	0.000***
	2013	Guinea-Bissau	−0.135	0.000***
Malawi	2006	Niger	0.115	0.002***
	2008	Niger	0.117	0.000***
São Tomé and Príncipe	2006	Ghana	−0.104	0.094*
	2016	Ghana	−0.121	0.076*
Senegal	2006	Zambia	−0.306	0.000***
South Africa	1998	Botswana	−0.172	0.001***

Notes:
*Inference: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$
**Observation Period of Central African Republic is 1991~2019.

Appendix B DID trend in Africa

Malawi vs. Niger			*S. Africa vs. Botswana*		
Year	*DID*	*P > | t |*	*Year*	*DID*	*P > | t |*
1999	0.091	0.015**	1991	−0.264	0.000***
2000	0.074	0.070*	1992	−0.232	0.000***
2001	0.056	0.206	1993	−0.209	0.000***

Malawi vs. Niger			*S. Africa vs. Botswana*		
Year	*DID*	*P > | t |*	*Year*	*DID*	*P > | t |*
2002	0.081	0.080*	1994	−0.199	0.000***
2003	0.105	0.022**	1995	−0.195	0.000***
2004	0.114	0.009***	1996	−0.187	0.000***
2005	0.111	0.007***	1997	−0.182	0.000***
2006	0.115	0.002***	1998	−0.172	0.001***
2007	0.122	0.001***	1999	−0.166	0.001***
2008	0.117	0.000***	2000	−0.153	0.002***
2009	0.112	0.001***	2001	−0.147	0.003***
2010	0.097	0.003***	2002	−0.147	0.002***
2011	0.084	0.016**	2003	−0.145	0.002***
2012	0.065	0.059*	2004	−0.144	0.002***
2013	0.059	0.086*	2005	−0.147	0.001***
2014	0.052	0.135	2006	−0.153	0.000***
2015	0.044	0.227	2007	−0.158	0.000***
2016	0.036	0.336	2008	−0.162	0.001***
2017	0.032	0.388	2009	−0.165	0.001***
2018	0.027	0.461	2010	−0.181	0.000***
2019	0.029	0.401	2011	−0.192	0.000***
			2012	−0.201	0.000***
			2013	−0.211	0.000***
			2014	−0.207	0.000***
			2015	−0.198	0.000***
			2016	−0.21	0.000***
			2017	−0.213	0.000***
			2018	−0.215	0.000***
			2019	−0.218	0.000***

Notes:
Inference: *** p < 0.01; ** p < 0.05; * p < 0.1

Appendix C DID results for Central and Eastern Europe

Treated country	*Control country*			
	Year		*DID*	*P> | t |*
Albania	2012	Turkey	0.028	**0.744**
Bosnia and Herzegovina	2012	Turkey	−0.035	**0.663**
Bulgaria	2012	Turkey	−0.019	**0.824**
Croatia	2012	Turkey	−0.262	0.000***
Czechia.	2012	Turkey	−0.178	0.011**
Estonia	2012	Turkey	−0.086	**0.297**

Treated country	*Control country*			
	Year		*DID*	*P> | t |*
Hungary	2012	Turkey	−0.190	0.007***
Latvia	2012	Turkey	−0.005	**0.959**
Lithuania	2012	Turkey	0.078	**0.405**
Montenegro	2012	Turkey	−0.129	0.071*
North Macedonia	2012	Turkey	−0.107	**0.110**
Poland	2012	Turkey	−0.008	**0.914**
Romania	2012	Turkey	0.020	**0.826**
Serbia	2012	Turkey	−0.080	**0.319**
Slovakia	2012	Turkey	−0.036	**0.646**
Slovenia	2012	Turkey	−0.261	0.000***

Notes:
Inference: *** p < 0.01; ** p < 0.05; * p < 0.1

Appendix D DID trend for Central and Eastern Europe

Czech Rep. vs. Turkey			*Hungary vs. Turkey*		
Year	*DID*	*P > | t |*	*Year*	*DID*	*P> | t |*
2000	−0.037	0.547	2000	−0.042	0.478
2001	−0.033	0.609	2001	−0.042	0.518
2002	−0.075	0.236	2002	−0.088	0.166
2003	−0.091	0.124	2003	−0.117	0.061*
2004	−0.103	0.072*	2004	−0.14	0.025**
2005	−0.107	0.072*	2005	−0.153	0.020**
2006	−0.109	0.090*	2006	−0.161	0.023**
2007	−0.115	0.102	2007	−0.168	0.027**
2008	−0.125	0.098*	2008	−0.171	0.030**
2009	−0.141	0.071*	2009	−0.18	0.025**
2010	−0.161	0.029**	2010	−0.191	0.011**
2011	−0.175	0.013**	2011	−0.195	0.006***
2012	−0.178	0.011**	2012	−0.19	0.007***
2013	−0.177	0.010***	2013	−0.179	0.009***
2014	−0.164	0.015**	2014	−0.161	0.016**
2015	−0.15	0.022**	2015	−0.146	0.026**
2016	−0.138	0.033**	2016	−0.13	0.049**
2017	−0.127	0.039**	2017	−0.113	0.073*
2018	−0.111	0.073*	2018	−0.083	0.174
2019	−0.094	0.134	2019	−0.053	0.377

Notes:
Inference: *** p < 0.01; ** p < 0.05; * p < 0.1

Appendix E DID results for Latin America and the Caribbean

Treated Country	*Break Year*	*Control_1*		
		Control Country	*DID*	*P > | t |*
Antigua and Barbuda	2013	Panama	−0.488	0.000***
Argentina	2013	Saint Vincent and the Grenadines	0.014	**0.803**
Bahamas	2013	St. Kitts and Nevis	−0.180	0.000***
Barbados	2013	St. Kitts and Nevis	−0.110	0.000***
Belize	2013	Bolivia	−0.296	0.000***
Bolivia	2013	Belize	0.296	0.000***
Brazil	2013	Saint Vincent and the Grenadines	0.003	**0.953**
Chile	2013	Panama	−0.213	0.005***
Colombia	2013	Paraguay	0.007	**0.886**
Costa Rica	2007	Panama	−0.195	0.006***
	2013	Panama	−0.209	0.007***
Cuba	2013	Dominican Republic	−0.023	**0.781**
Dominica	2004	Dominican Republic	−0.146	0.008***
	2013	Dominican Republic	−0.264	0.000***
Dominican Republic	2013	Mexico	0.277	0.000***
Ecuador	2013	Paraguay	−0.082	0.075*
El Salvador	2013	Suriname	−0.007	**0.893**
Grenada	2005	Panama	−0.283	0.000***
	2013	Panama	−0.328	0.000***
Guatemala	2013	Suriname	−0.001	**0.984**
Guyana	2013	Dominican Republic	−0.076	**0.244**
Haiti	2013	Bolivia	−0.223	0.000***
Honduras	2013	Bolivia	−0.140	0.003***
Jamaica	2013	Paraguay	−0.298	0.000***
Mexico	2013	Dominican Republic	−0.277	0.000***
Nicaragua	2013	Bolivia	−0.061	**0.180**
Panama	2013	Antigua and Barbuda	0.488	0.000***

Treated Country	*Break Year*	*Control_1*		
		Control Country	*DID*	*P > | t |*
Paraguay	2013	Colombia	−0.007	**0.886**
Peru	2013	Saint Vincent and the Grenadines	0.282	0.000***
Saint Kitts and Nevis	2013	Uruguay	−0.254	0.000***
Saint Lucia	2007	Guyana	−0.190	0.000***
	2013	Guyana	−0.229	0.000***
Saint Vincent and the Grenadines	2013	Brazil	−0.003	**0.953**
Suriname	2013	Guatemala	0.001	**0.984**
Trinidad and Tobago	2013	St. Kitts and Nevis	0.022	**0.733**
Uruguay	2013	St. Kitts and Nevis	0.254	0.000***
Venezuela	2013	Panama	−0.295	0.000***

Notes:
Inference: *** p < 0.01; ** p < 0.05; * p < 0.1

Appendix F DID trend for Latin America and the Caribbean

Costa Rica vs. Panama			*Dominica vs. Dominican Republic*		
Year	*DID*	*P> | t |*	*Year*	*DID*	*P> | t |*
2001	−0.106	0.174	2001	−0.139	0.015**
2002	−0.129	0.097*	2002	−0.142	0.012**
2003	−0.149	0.050**	2003	−0.124	0.028**
2004	−0.168	0.023**	2004	−0.146	0.008***
2005	−0.179	0.014**	2005	−0.169	0.001***
2006	−0.186	0.008***	2006	−0.173	0.001***
2007	−0.195	0.006***	2007	−0.174	0.002***
2008	−0.201	0.008***	2008	−0.179	0.003***
2009	−0.202	0.013**	2009	−0.198	0.002***
2010	−0.205	0.010***	2010	−0.219	0.001***
2011	−0.213	0.005***	2011	−0.232	0.001***
2012	−0.213	0.005***	2012	−0.247	0.000***
2013	−0.209	0.007***	2013	−0.264	0.000***
2014	−0.2	0.011**	2014	−0.279	0.000***
2015	−0.191	0.016**	2015	−0.303	0.000***
2016	−0.181	0.023**	2016	−0.318	0.000***
2017	−0.174	0.027**	2017	−0.346	0.000***
			2018	−0.349	0.000***

Grenada vs. Panama			*Guatemala vs. Suriname*		
Year	*DID*	*P > | t |*	*Year*	*DID*	*P > | t |*
2001	−0.195	0.009***	2001	−0.159	0.000***
2002	−0.201	0.007***	2002	−0.151	0.000***
2003	−0.223	0.002***	2003	−0.153	0.000***
2004	−0.264	0.001***	2004	−0.145	0.000***
2005	−0.283	0.000***	2005	−0.128	0.002***
2006	−0.323	0.000***	2006	−0.112	0.008***
2007	−0.341	0.000***	2007	−0.099	0.023**
2008	−0.356	0.000***	2008	−0.09	0.050*
2009	−0.364	0.000***	2009	−0.081	0.090*
2010	−0.367	0.000***	2010	−0.067	**0.158**
2011	−0.367	0.000***	2011	−0.049	**0.308**
2012	−0.356	0.000***	2012	−0.026	**0.596**
2013	−0.328	0.000***	2013	−0.001	**0.984**
2014	−0.293	0.000***	2014	0.027	**0.578**
2015	−0.269	0.001***	2015	0.053	**0.266**
2016	−0.252	0.001***	2016	0.068	**0.152**
2017	−0.237	0.002***	2017	0.064	**0.161**
			2018	0.056	**0.187**

St. Lucia vs. Guyana		
Year	*DID*	*P > | t |*
2001	−0.155	0.001***
2002	−0.126	0.010**
2003	−0.114	0.016**
2004	−0.124	0.007***
2005	−0.146	0.002***
2006	−0.168	0.000***
2007	−0.190	0.000***
2008	−0.199	0.000***
2009	−0.215	0.000***
2010	−0.219	0.000***
2011	−0.222	0.000***
2012	−0.229	0.000***
2013	−0.229	0.000***
2014	−0.218	0.000***
2015	−0.211	0.000***
2016	−0.202	0.000***

St. Lucia vs. Guyana		
Year	*DID*	*P> | t |*
2017	−0.198	0.000***
2018	−0.208	0.000***
2019	−0.200	0.000***

Notes:
Inference: *** p < 0.01; ** p < 0.05; * p < 0.1

Appendix G DID results for Oceania

Treated Country	*Break Year*	*Control_1*		
		Control Country	*DID*	*P > | t |*
Fiji	2006	NCL	−0.019	**0.837**
Marshall	1998	FSM	0.013	**0.869**
Micronesia	2006	Tuvalu	−0.465	0.000***
Palau	2006	Cook ISL	−0.320	0.026**
Papua New Guinea	2006	El Salvador	−0.03	**0.823**
Samoa	2006	Tuvalu	0.293	0.026**
Solomon	2006	Samoa	−0.482	0.000***
Tonga	1998	Tuvalu	−0.327	0.067*
Tuvalu	2006	FSM	0.458	0.000***
Vanuatu	2006	New Caledonia	−0.047	**0.485**

Notes:
Inference: *** p < 0.01; ** p < 0.05; * p < 0.1

Appendix H DID trend for Oceania

Tuvalu vs. FSM			*Tonga vs. Tuvalu*		
Year	*DID*	*P> | t |*	*Year*	*DID*	*P> | t |*
1971	−0.543	0.000***	1971	1.03	0.000***
1972	−0.541	0.000***	1972	1.023	0.000***
1973	−0.532	0.000***	1973	1.007	0.000***
1974	−0.503	0.007***	1974	0.964	0.000***
1975	−0.437	0.035**	1975	0.893	0.000***
1976	−0.384	0.059*	1976	0.853	0.000***
1977	−0.338	0.081*	1977	0.835	0.000***
1978	−0.289	0.117	1978	0.791	0.000***
1979	−0.241	0.174	1979	0.737	0.000***

Tuvalu vs. FSM			*Tonga vs. Tuvalu*		
Year	*DID*	*P> | t |*	*Year*	*DID*	*P> | t |*
1980	−0.191	0.269	1980	0.688	0.001***
1981	−0.149	0.375	1981	0.618	0.002***
1982	−0.105	0.528	1982	0.563	0.005***
1983	−0.041	0.803	1983	0.489	0.014**
1984	0.015	0.926	1984	0.427	0.028**
1985	0.056	0.715	1985	0.379	0.045**
1986	0.13	0.386	1986	0.33	0.065*
1987	0.188	0.198	1987	0.288	0.094*
1988	0.229	0.108	1988	0.248	0.138
1989	0.248	0.084*	1989	0.213	0.213
1990	0.263	0.067*	1990	0.182	0.296
1991	0.273	0.061*	1991	0.158	0.372
1992	0.286	0.053*	1992	0.125	0.494
1993	0.3	0.046**	1993	0.097	0.6
1994	0.33	0.028**	1994	0.062	0.739
1995	0.348	0.022**	1995	0.038	0.838
1996	0.367	0.016**	1996	0.012	0.95
1997	0.381	0.013**	1997	−0.015	0.938
1998	0.386	0.011**	1998	−0.033	0.861
1999	0.4	0.008***	1999	−0.045	0.812
2000	0.412	0.006***	2000	−0.054	0.772
2001	0.431	0.004***	2001	−0.061	0.74
2002	0.459	0.002***	2002	−0.061	0.731
2003	0.478	0.001***	2003	−0.055	0.749
2004	0.487	0.001***	2004	−0.046	0.783
2005	0.482	0.001***	2005	−0.036	0.83
2006	0.485	0.001***	2006	−0.034	0.837
2007	0.488	0.000***	2007	−0.037	0.817
2008	0.479	0.001***	2008	−0.028	0.86
2009	0.463	0.001***	2009	−0.019	0.908
2010	0.471	0.001***	2010	−0.016	0.92
2011	0.471	0.001***	2011	−0.013	0.935
2012	0.452	0.001***	2012	−0.007	0.964
2013	0.445	0.002***	2013	−0.017	0.918
2014	0.433	0.003***	2014	−0.024	0.885
2015	0.424	0.005***	2015	−0.035	0.835
2016	0.426	0.003***	2016	−0.05	0.763
2017	0.409	0.004***	2017	−0.049	0.761
2018	0.383	0.006***	2018	−0.045	0.783
2019	0.369	0.008***	2019	−0.025	0.877

Notes:
Inference: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

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Note: Figures are indicated by *italics* and tables by **bold type**. Endnotes consist of the page number followed by "n" and the endnote number e.g., 13n1 refers to endnote 1 on page 13.