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Sino-Taiwan Chequebook Diplomacy in the Pacific

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SABER SALEM, JUN 22 2020

Over the past two decades, there has been an unprecedented growth and expansion in the level and magnitude of Sino-Taiwan aid competition in the Pacific region. The two Asiatic economic giants have been appropriating colossal sums of their aid funds to the developing and least developed island nations for diplomatic recognition. It is believed that it will not take long for China to overtake Australia as the largest creditor to the region after it “committed to spending more than four times as much as Australia” (Lyons, 2018). In 2017, China pledged US\$4 billion to the island nations for high visibility infrastructure projects across the region (Lyons, 2018). Taiwan has equally been persistent in its pursuit of diplomatic recognition to garner international support through aid diplomacy.

The Sino-Taiwan rivalry goes back to 1950s when the US intervened in Taiwan Strait following the Korean War and prevented the complete Chinese takeover of the island nation and annexing it to mainland China. Enjoying support from the United States, Taiwan continued to compete with China for diplomatic recognition globally (Atkinson, 2010). The Republic of China (ROC) enjoyed the luxury of occupying the UN Seat. In 1971, however, ROC lost the UN Seat to People’s Republic of China (PRC) by failing to gather enough international support and backing. The US and its allies also recognised PRC in a bid to isolate the Soviet Union. Thus, the US reduced its level of cooperation with Taiwan and increased it with China. The US also encouraged its allies Japan and Germany to engage more with China, so much so, that during 1970s Japan was China’s biggest foreign aid donor constructing airports, seaports, railways, roads and hydropower dams (Nowak, 2015).

Furthermore, as the UN permanent seat and veto right was bestowed upon PRC, Taiwan fought back and intensified its diplomatic competition with China by providing development aid to cash-starved countries around the world in return for diplomatic recognition. This Sino-Taiwan diplomatic soft war coincided with the wind of decolonisation that was sweeping through the developing and underdeveloped world. The newly independent nations were in desperate need for foreign assistance to address their burgeoning socio-economic needs. Bearing that in mind, China and Taiwan both started pumping aid for diplomatic recognition to the newly de-colonised nations around the world particularly to the small island nations of the Pacific. To Taipei’s dismay, Beijing had an upper hand over Taiwan because of its “UN leverage.”

This UN leverage appeared alluring to most Pacific nations thus preferring China to Taiwan. According to a Fijian politician, “China is a member of the UN Security Council and Chinese Taiwan was there before 1973. For Fiji 73 was a time when we had to switch from the Republic of China to the People’s Republic of China” (Interview SP005, 21 March 2019). Despite this privilege that China enjoyed, Taiwan managed to establish diplomatic relations with six of the fourteen Pacific islands nations due to its impressive economic growth and financial capacity to furnish the island nations with handsome and much-needed financial assistance. “Taiwan’s economic success relative to China through the 1970s and 1980s assisted in this purchasing of diplomatic recognition, to some extent countering China’s greater international weight” (Atkinson, 2010, p. 409). Ever since, the Pacific small island nations have been “active creators” of intense Sino-Taiwan diplomatic rivalry hence benefiting from the inflow of foreign aid.

Measuring the ratio of aid to GDP, the Pacific island nations are some of the most aid-dependent countries in the world. There are multiple factors that hold back their growth. “Geographic remoteness, exposure to frequent natural disasters and vulnerability to climate change are several of the causes that make the region vulnerable” (Dayant, 2019). Taipei and Beijing take advantage of this vulnerability and Pacific’s continued demand for aid with the former

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pushing for diplomatic allegiance while the latter insisting on adherence to One China Policy. The One China Policy is a diplomatic acknowledgement that PRC is the sole government of China and Taiwan is a breakaway province to be reunited with the mainland. Under this policy, “anyone who wants to establish official relation with China must first abandon any formal recognition of Taiwan (Milhiet, 2017, p. 5).

The Sino-Taiwan diplomatic rivalry has been blamed for promoting bad governance in the region (Salem, 2020). For the sake of achieving their political agendas, the two emerging Asiatic donors have corrupted the system by bribing leaders, supporting opposition parties, sabotaging development plans and even arousing social tensions against the governments that is pro-Taiwan and does not adhere to One China Policy (Atkinson, 2010). For example, in Palau, Sabino Anastacio who is speaker of the House and is believed to be involved in a Chinese hotel building project, has become an advocate of switching diplomatic recognition from ROC to PRC (Hille, 2019). This negative aid competition has caused a huge concern not only to the traditional donors but also to the wider international community, which is deemed as hindrance to social development and economic growth.

Before aid competition between China and Taiwan in the region Australia, as the lead donor, provided condition-based aid to the island nations and prioritised promotion of good governance, which OECD defines as “the exercise of political, economic and administrative authority necessary to manage a nation’s affairs” (Quoted in Dayant, 2019). Under this rubric, Australia allocated 24 per cent of its total foreign aid to promotion of good governance. The second most important sector was transport, which received the fair share of 14 per cent. Health and education would receive 13 per cent and 11 per cent respectively (Dayant, 2019). However, the Sino-Taiwan aid competition has arguably hampered Australia’s good governance efforts. China considers such efforts as interference in the domestic affairs of sovereign nations. Thus, PRC provides aid to these countries with “no strings attached.” It is due to this so-called no strings attached element that Chinese aid is high in demand and sought after in the Pacific.

Currently, throughout the region China provides bilateral aid in three forms, namely, grants, interest-free loans administered by state finances and concessional loans administered through China Exim bank. The objective of these “concessional loans is to promote economic development and improve living standards in developing countries, and to boost economic cooperation between developing countries and China” (Dornan and Brant, 2014, p. 351). However, one stark difference between Chinese concessional loans and other donors is its grace period. For example, Japanese loans have 40 to 50 years of grace period. However, Chinese “interest-free loans are usually provided for 20 years, which includes five years of use, a five-year grace period, and 10 years of repayment” (Dornan and Brant, 2014, p. 351). By contrast, Taiwanese concessional and interest-free loans also have longer grace period.

In addition, one of many criticisms that have been levelled against Chinese aid is its “tied nature.” When recipient countries secure Chinese concessional loans, the implementing body must be a Chinese company and up to 50 per cent of the material needed for the projects must be imported from China. For Chinese, provision of ‘tied aid’ is considered as a win-win situation where Chinese companies, contractors, suppliers, workers as well as recipient countries benefit from it (Dornan and Brant, 2014). Government officials interviewed in Fiji also reflected this sentiment of both sides benefiting from Chinese “demand-driven” aid. They believed that regardless of its tied nature, “I think it will benefit Fiji” (Interview SP 006, 21 March 2019). Both Fijian and Vanuatu officials confirmed that Chinese are not a threat to anybody politically, socially and even militarily. In fact, “officials are proud of China’s commitment to ‘demand-driven aid’” (Varral, 2018).

There is also a common belief that the region in its entirety would benefit from aid competition between China and Taiwan. “At the end of the day, they use Fiji as a strategic hub. They will give Fiji a lot of money. It is good.... They all come to Fiji and give us money because of their own political agendas” (Interview SP006, 21 March 2019). This “political agendas” that presumably China and Taiwan have in the Pacific region has concerned traditional donors, especially when there was unconfirmed reports that China was secretly negotiating with the Vanuatu government to open a military base there. However, both governments denied the allegations, especially after it aroused a huge media frenzy in the region.

Additionally, China’s concessional loans have heavily indebted many of the island countries, which cannot afford to repay their loans. Right now, three Pacific nations “Tonga, Samoa and Vanuatu all face considerable debt repayment

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pressures, and all have significant debt to China.... And China [is] taking advantage of debt-distressed nations” (Pryke, 2018). Many analysts believe, this is how Chinese slowly penetrate into the new territories – provision of unsustainable loans. Chinese, however, claim that their foreign aid is for social development, economic growth and good governance.

In addition to that, Beijing showcases its foreign aid through the lens of South-South Cooperation (SSC), which is claimed to be a method of knowledge and technology transfer as well as technical cooperation between global south countries (UN, 2019). China considers Pacific region as part of its greater periphery in its diplomacy and “the southern extension of the Belt and Road Initiative” (Zhang, 2020). Beijing also considers the China-Oceania-Pacific blue economic passage as part of its grand 21st century maritime silk road, which passes through the South China Sea into the Pacific. Thus, “China has stood out so much because they focus on really select, high status infrastructure projects” (Pryke, 2018 quoted in ABC News).

Contrary to Beijing’s futuristic grand ambitions, Taipei’s aid policy is to get diplomatic recognition from the aid dependent island nations and secure their diplomatic support at the international forums such as the UN and other multilateral institutions. Interestingly, the Pacific microstates constitute seven per cent of the UN votes. Thus, both emerging donors need those votes at the international level in exchange for financial assistance and investments.

In its white paper on foreign aid issued in 2009, ROC considers foreign aid as part of its moral obligations (MOFA, 2009). Given that it once was an aid recipient nation itself, Taipei believes that it is time to share its developmental experience with other countries around the world. Thus, it is in this spirit that Taiwan’s aid has focused on “technical assistance in agriculture and health, government scholarships and small-to medium-sized infrastructure such as a solar power plant in Nauru” (Zhang, 2020).

It is worth highlighting though, China’s multi-layered expansion in the Pacific region has become a red hot debating point in the corridors of power in Washington, Canberra, Tokyo and Wellington. For the US and its regional allies, China’s fast-pace growing influence in the region is intolerable. The US believes that a “potential military advantage” could flow from the current multi-sector Chinese investments in the Pacific where most of the island nations are sinking in Chinese concessional loans. Beijing has aggressively invested in mines, hydro-electricity projects, fishing, timber, real estate and services with complete disregard to the island nations debt repayment abilities. But, “the credit Chinese state banks are extending to impoverished developing nations also looks a lot like a form of ‘debt colonialism’” (Garrick, 2018). China has time and again denied such assertions and emphasised on its aid with no ulterior motives. Nonetheless, realities on the ground suggest otherwise.

In conclusion, the Sino-Taiwan aid competition in the Pacific region has gained momentum over the past years, which has forced the traditional powers to make a strong comeback. From a base of couple of million dollars, today Chinese foreign aid has surged to a staggering figure of US\$4 billion. There has been a similar quantitative growth in Taiwan’s aid funds. Given that the intensification of chequebook diplomacy between the two emerging economic giants remains intense, it is believed that PRC will further bolster its financial assistance to the Pacific to serve its political, economic and diplomatic agendas. On the diplomatic front, Beijing aims to tighten Taipei’s diplomatic space globally in order to coerce the island nation to join the mainland. PRC considers Taiwan as its renegade province and “has for several decades waged a largely successful battle to wrest diplomatic recognition from ‘the other China’” (Hanson, 2008, p.4).

The ROC, on the other hand, has also been relentlessly pressing ahead to get as many diplomatic allies as possible, especially in the developing and underdeveloped countries around the world where foreign aid can pave the way to achieving the long-term objective. Beijing is hopeful that by exerting aggressive diplomatic pressure and narrowing its global space, Taipei might consider giving up its secessionist drive. However, the Taiwanese general public are tenaciously holding onto their grip for a separate and independent nation (Funnell, 2020). It is due to such nation-wide pro-independence sentiment that Taipei is competing with Beijing internationally to get diplomatic recognition. Although the volume of Taiwan’s aid is far below that of the Chinese at the moment, an increment in its aid in coming fiscal years is not rolled out.

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This aid competition between traditional and emerging donors only raises questions as to who would eventually benefit or lose in this theatre. It is, ostensibly, too early to draw a definitive conclusion that the current multi-pronged aid competition would benefit the region or, on the flipside, disastrously harm it. Only time will prove either side of the argument right.

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