

## CHINA'S STRATEGY VIS-A-VIS TAIWAN'S DIPLOMATIC FRIENDS: IS BEIJING USING DOLLAR DIPLOMACY?<sup>1</sup>

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*The article responds to the argument that Beijing has been using economic incentives to cause recipient nations to switch their diplomatic allegiances, which ultimately means breaking off ties with Taiwan and recognizing the PRC. It can be concluded that the empirical data confirm China's use of dollar diplomacy. In the case of most of the analysed countries capital flows and economic benefits were provided shortly before diplomatic ties were established. For all of the countries, their diplomatic recognition of the PRC enabled rich economic, trade, and development links with China. However, the volumes of capital flows were unstable and the awarding of economic advantages was not automatic and even in states which saw the biggest input of capital and the most lucrative economic deals, China's use of dollar diplomacy leaves several questions.*

**Key words:** China; Taiwan; dollar diplomacy; Taiwan's allies.

### 1 INTRODUCTION

Taiwan (the Republic of China/Taiwan) lost its status as an internationally recognised independent country at the beginning of the 1970s when the People's Republic of China (PRC) joined the United Nations (UN). Within a few years, most UN member states had switched their diplomatic recognition to the PRC based on the 'One-China' principle.<sup>3</sup> Beijing calls Taiwan a renegade province and insists that it is inseparable from the PRC. Taiwan, on the other hand, rejects the

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<sup>3</sup> Formulated in 1979, this principle states that there is only one China that Taiwan is an inalienable part of Chinese territory, and that the Chinese Communist Party is the rightful government of both the mainland and Taiwan. This position was later reinforced in various Chinese government statements and declarations. See, in particular, the white papers 'The Taiwan Question and Reunification of China' (1993) and 'The One-China Principle and the Taiwan Issue' (2000).

social and political organisation of mainland China and the narrative about Taiwan's rebel province status. Nevertheless, world political developments have gradually marginalised Taiwan. The PRC is intent on minimising Taiwan's international presence and does not recognise activities or events that might imply Taiwanese sovereignty. From an international politics perspective, Taiwan's situation is clearly very complicated.<sup>4</sup> The country has been struggling to maintain its 'independent' position by any means possible, including diplomatic relations with other states. Even so, the number of countries that diplomatically recognise Taiwan is declining. Between 2016 and 2018 alone, Taiwan lost the support of Burkina Faso, the Dominican Republic, El Salvador, Panama, the Gambia, and Sao Tomé. In December 2018, Taiwan had diplomatic relations with only 17 countries.

Every time Taiwan loses a diplomatic ally, there is talk of Chinese dollar diplomacy (Reuters 2018a; The Economist 2018). The idea here is that Beijing is using economic enticements to persuade Taiwan's diplomatic friends to abandon the island. Both the behaviour and comments of several of Taipei's former allies suggest that there might be good reason to think this way. In an interview with Bloomberg in 2018, the then Burkinabe minister of foreign affairs, Alpha Barry mentioned that Beijing had offered his country 500 million USD to establish diplomatic relations with China the previous year (Bloomberg 2018). In 2018, El Salvador made no secret of its reasons for shifting its allegiance when it announced that it had established diplomatic ties with the PRC after Taiwan denied its financial demands (Renteria 2018).

Given these circumstances, it seems quite credible that China is using economic incentives to convince Taiwan's allies to 'switch teams'. A closer look at Chinese politics and the politics of former Taiwan allies however, suggests this may be too simplistic an explanation. For a time, preserving diplomatic ties with Taiwan was in these states' economic interests, but with the political and economic rise of China and the side-lining of Taiwan in world politics, it became clear that a partnership with Taipei would not suffice for countries with regional or even global ambitions. As the cases of Costa Rica and Senegal show, China also became a political sponsor of certain countries. Thanks to the support of the PRC, Costa Rica was granted a non-permanent seat on the UN Security Council in 2007 and Beijing also backed its APEC membership despite a moratorium on new members (Casas-Zamora 2009). Similar motives may be ascribed to Senegal, which wished to represent Africa on the UNSC in 2005 and to join the Group of 33 in the WTO (Gehrold and Tietze 2011; Okumu 2005).

Additionally, a growing number of studies (e.g. Corkin 2011; Lee and Zou 2017) show that Chinese foreign policy is quite decentralised and that the Communist Party cannot control or manage foreign policy matters, which involve more and more agents who do not communicate adequately with one another. The situation has led to many clashes over who has the authority to set foreign policy, with coordination sometimes so poor that different representatives present opposing positions internationally. In fact, some studies (Corkin 2011; Lee and Zou 2017) suggest that trade and investment interests are the true forces driving political goals and that there is no top-down grand geopolitical strategy in many foreign policy areas. Concerning the approach to Taiwan, things are even more

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<sup>4</sup> Taiwan's vigilant approach to Beijing has been strengthened also by events in Hong Kong. The limited international reactions on Hong Kong's demonstrations and China's Hong Kong's activities indicate that there will be hardly any assistance to Taiwan if the island would be part of the PRC (more see Chan Ka-Lok 2018).

complicated. Taiwan-related issues are seen in China as part of domestic policy and several Chinese political bodies are responsible for Taiwanese relations and affairs. At the same time, none of these bodies has direct links to foreign policy or the Ministry of Foreign Affairs (MFA) (Hsiao 2013; Jakobson and Knox 2010).

All this raises the issue of whether there is actually any top-down strategy or systematic policy on Chinese dollar diplomacy outside the general One-China principle – or, to put it another way, whether Beijing is systematically using economic incentives to change the recipient nations' positions and gain diplomatic recognition. The current study aims to generate new evidence to address this question (among previous older studies see for example Taylor 2002 or Rich 2007). To this end, I analyse capital flows and economic relationships, offers, and incentives between China and countries that have broken off diplomatic ties with Taiwan.

To establish that the PRC is using dollar diplomacy to poach Taiwan's diplomatic friends, the empirical data would need to show that shortly *before* and *after* a country changed diplomatic course, it received funds or other economic incentives and offers from Beijing or that the PRC had taken steps to pledge economic benefits.

The current study presents my research in three stages. The first part defines and operationalizes the dollar diplomacy concept and explains the independent variables selected as well as the methodology used to obtain data for each variable. In the second part, I collate the information and results for these independent variables in each country that severed ties with Taiwan and switched its allegiance to the PRC. The values for the independent variables were tracked over a 10-year period beginning four years before the diplomatic change and including the year of the shift and the next five years. Finally I review and evaluate all of the collected data. The sample for my study consisted of all countries that broke off diplomatic relations with Taiwan in favour of China between 2000 and 2018 (Table 1).

TABLE 1: COUNTRIES WHICH BROKE OFF RELATIONS WITH TAIWAN AND RECOGNISED THE PRC, 2000–2018

Country	Year when diplomatic ties were established with the PRC
Liberia	2003
Dominica	2004
Senegal	2005
Grenada	2005
Chad	2006
Costa Rica	2007
Malawi	2007
The Gambia	2016
Sao Tomé and Príncipe	2016
Panama	2017
El Salvador	2018
Burkina Faso	2018
Dominican Republic	2018

Source: Information obtained by the author from the Chinese Ministry of Foreign Affairs and confirmed by the foreign affairs ministries of relevant states.

Observers agree that the year 2000 marked a foreign policy milestone for China (Jakobson and Knox 2010; Jakobson and Manuel 2016; China Daily 2018; Zhang and Smith 2017). The country's economic rise and growing political self-confidence led to the redefining of its international goals and actions. Beijing approved a 'going out' strategy that combined political with economic expansion and resulted in new policies including a development policy and new bodies such as Leading Small Groups and China International Development Cooperation Agency. In 2000, the PRC also released a new white paper on its position on Taiwan. The country's new course was confirmed in 2003 when the so-called fourth generation of leaders took office.

## 2 AN OPERATING DEFINITION OF DOLLAR DIPLOMACY AND INDEPENDENT VARIABLES

The term 'dollar diplomacy' was originally connected with US foreign policy under the administration of W.H. Taft. The goal of US dollar diplomacy was to use private capital to improve the country's financial opportunities and further its interests overseas, particularly in Central America and the Caribbean (Encyclopaedia Britannica n.d.). Later, the term was used to describe a set of tactics designed to achieve political objectives by economic means. The current study uses the phrase in a similar way: dollar diplomacy is defined as the capital flows and other economic offers and incentives (payments or pledges of profits) which one state provides to another in order to win support for its own goals and visions.

Drawing on this definition and studies in the areas of political economy, international relations, foreign policy, and Chinese studies, I take the following independent variables (each variable and the reason why it was chosen is explained in detail below) to indicate the existence of Chinese dollar diplomacy vis-à-vis friends of Taiwan:

- a rise in foreign direct investment (FDI) flows from China to the recipient country;
- a rise in Chinese financial investments and participation in construction contracts in the recipient country;
- a rise in Chinese foreign aid (FA) to the recipient country;
- the conclusion of a bilateral trade or any other agreement aiming to improve the recipient country's economic situation (or the start of negotiations of such an agreement);
- the establishment of the Confucius Institute (CI) in the recipient country (or the start of relevant negotiations);
- the granting of Approved Destination Status (ADS) to the recipient country (or the start of relevant negotiations); and
- the recipient country's involvement in a multilateral institution managed and funded by China.

To support the conclusion that China has used dollar diplomacy to win over Taiwan's diplomatic friends, the results for these independent variables would need to show that shortly *before* and *after* the other country changed diplomatic course, it received capital flows or pledges or other incentives related to economic enrichment. In the sections that follow, I explain the independent variables used in this study in detail, with a focus on methodology and the techniques applied to collection and evaluation of the data. At the same time, I highlight key limits and research problems associated with each indicator.

At the outset, it must be said that the biggest limitation and problem affecting the present research is the minimal transparency of the Chinese state and its reluctance to share information and data. The Chinese authorities only communicate results and data selectively; key data for particular countries and periods are missing and this is also true of the total values of certain projects (for more details on this problem see e.g. Dreher et al. 2017; Grimm et al. 2011; Kitano 2016). A second obstacle relates to the diverging definitions of different indicators and the different methodologies used to determine results. Chinese foreign aid, for example, cannot be compared with the OECD's Official Development Assistance (ODA). Similarly, China's methodology for measuring FDI flows differs from that of the United Nations Conference on Trade and Development (UNCTAD) and the World Bank (de Jong, Greeven and Ebbers 2017). This situation means that up to now certain topics have been ignored. Moreover, scholars have started to establish their own datasets concerning Chinese economic activities and capital flows (e.g. China-Africa Research Initiative of Johns Hopkins School of Advanced International Studies; Dreher et al. 2017; Wolf, Wand and Warner 2013). The current study uses information and statistics from China as well as data produced by third parties. Whenever possible, data have been triangulated and cross-checked based on information from Chinese political entities and media, international media, and the political institutions and media of relevant countries as well as academic sources, and reports and interviews with political representatives. In several cases, Wikileaks documents were also used.

## 2.1 Foreign Direct Investment Flows

Foreign Direct Investment Flows record the value of cross-border transactions related to direct investment over a given period of time. For a long time, these flows were thought to have a purely economic and developmental impact but over the last decade, a number of studies have shown that FDI may be a tool for achieving political goals (see e.g. Biglaiser and Staats 2010; Raess, Ren and Wagner 2017; Strüver 2016).

FDI officially became part of China's national economic development plan in the 1990s when Beijing actively encouraged Chinese companies to go global. At the same time, the government expanded the development of already internationally competitive state-owned enterprises (SOEs) (de Jong et al. 2017). While scholars disagree about the extent to which Chinese companies are state-controlled, they agree on the existence of Chinese party-state oversight along with an extremely complex regulatory environment particularly for SOEs. SOEs dominate the list of China's biggest companies, tend to have preferential access to credit from China's policy banks, and are frequently contracted to work on aid and construction projects, and Chinese state bodies assist SOEs to enter new markets (Corkin 2011; Jones and Zou 2017; Lee and Yizheng 2017; Scissors 2016; Scissors 2018). All this suggests that in the case of China, FDI flows are a viable tool for reaching political goals.

For the purposes of this study, the total volume of FDI flows is not important but trends (changes in volume) are tracked. Data on FDIs are sourced from the *Statistical Bulletin of China's Outward Foreign Direct Investment* for the period 1999–2017 (National Bureau of Statistics in China 2017).<sup>5</sup> It must be noted that

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<sup>5</sup>At the time of writing, data on FDIs for 2018 were still not available. While UNCTAD offers another potential data source, UNCTAD data on bilateral FDI only cover the period between 2000 and 2012.

FDI data are far from perfect. Beijing transfers a huge volume of FDI through offshore financial centres such as Hong Kong, the British Virgin Islands, and the Cayman Islands (National Bureau of Statistics in China 2017) and the final recipients of this money are unknown.<sup>6</sup>

## 2.2 Chinese Investments and Participation in Construction Contracts

Investments and financial contributions to construction contracts are a second important means by which China asserts its economic presence globally. This 'Chinese financial participation' includes the state and SOEs as well as private investors. While private investors' share of investment contracts stood at about 30 per cent in 2017, construction contracts remain dominated by SOEs and the state, with massive aid from concessionary financing from state-controlled banks (Mayers and Gallagher 2018; Scissors 2018). Though there is some crossover between investment and construction contracts (ICC) and FDI, ICCs also include loans and non-investment flows such as professional services, know-how, and technology. Since my interest here is not in total amounts but in trends, some degree of overlapping should not present a problem.

Data about the volume of China's ICC contributions can be obtained from official Chinese Ministry of Commerce (MOFCOM) statistics, particularly the Investment Project Database (MOFCOM n.d.). These statistics do not, however, reflect flows passing through Hong Kong, i.e. an estimated one-third of all flows (Scissors 2018), and they do not extend beyond 2012. For this reason, I made use of the China Global Investment Tracker (CGIT). The CGIT tracks the movement of funds from China, including their transfer through Hong Kong to their final destinations, and is thus a vastly superior tool for measuring Chinese capital flows. The CGIT includes all verified investment and construction transactions worth 100 million USD or more between 2005 and 2018. Even so, it does not track loans, bonds or other foreign exchange applications that do not involve property or services in the host country (Scissors 2018, 2). Pre-2005 ICC data were obtained separately. The sources consulted were (i) international and local news reports, (ii) Chinese embassies, companies, and news reports, and (iii) political representatives and state institutions in the recipient country.

## 2.3 Foreign Aid

Foreign aid (FA) is probably both the most important and most problematic indicator of Chinese dollar diplomacy. The official aim of Chinese FA is to 'provide economic, technical, material, human resources and administrative support to recipient countries' (MOFCOM 2014, article 2). Scholars suggest, however, that this aid is driven by many other motives, some of which are political and ideological (Lengauer 2011; Lum et al. 2009; Zhang and Smith 2017). The Chinese FA system took off in the 1970s and since then has seen significant changes. Up to now, the system has been managed by MOFCOM, with other participating bodies including the MFA, the Ministry of Finance, and two financiers; China Export-Import Bank and China Development Bank (Zhang and Smith 2017). In 2018, Beijing also set up a special development agency. While the government (China Daily 2018) has said this agency will mediate between

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<sup>6</sup> The Hong Kong Census and Statistics Department lists only the 'major recipients' of Hong Kong's outward direct investments. A total of 10 countries are listed including mainland China, the Cayman Islands, and the British Virgin Islands. See the External Direct Investment Statistics of Hong Kong dataset, available at <https://www.censtatd.gov.hk/hkstat/sub/sp260.jsp?productCode=B1040003>.

ministries and other state bodies, its actual function is still not clear. Since the PRC favours a direct (bilateral) foreign aid system, the role of all these state institutions remains immense.

As we have seen, Beijing does not use a concept of Official Development Assistance like the one employed by the OECD (for details of the differences between the OECD's definition and the Chinese understanding of FA, see, e.g., Grimm 2011; Lum et al. 2009; Wolf, Wang, and Warner 2013). According to Chinese policy documents, FA covers three types of funding: grants (gratis aid), interest-free loans, and concessional loans. Grants support the construction of hospitals, schools, and other social welfare infrastructures, including both technical assistance and humanitarian aid. Interest-free loans are meant to help the recipient country build public facilities and relate to projects that improve living standards. Lastly, concessional loans are provided for projects, including infrastructure, which have both economic and social benefits (Information Office of the State Council the PRC 2011). In practice, Chinese FA also includes aid for the military and the construction of sports facilities, both of which are traditionally excluded from ODA. It is, however, not only the gap between Chinese FA and the OECD development assistance that presents a problem. Chinese FA is difficult to quantify. Back in 2009, some scholars lamented that the PRC did not publicly release any foreign aid statistics (Lum et al. 2009), and today the situation is no better.

Because of the lack of systematic, transparent, and representative FA data from the PRC, researchers in this area have only one option, i.e. to establish their own dataset. I used FA data from AidData and particularly from the Global Chinese Official Finance Dataset. The dataset tracks official Chinese overseas financing between 2000 and 2014 and is seen as the best resource to date in an otherwise poorly charted area. The AidData dataset relies on an open-source data collection and triangulation methodology (for more details see Dreher et al. 2017; Strange et al. 2017). This tracks Official Development Assistance-like flows, Other Official Flows (OOF) and Vague Official Finance (VOF). ODA-like flows include technical assistance, scholarships, concessional loans, debt relief, and grants for development. OOF covers non-concessional loans for development, export credits, commercial loans, grants for representatives' events, and funds for the Confucius Institutes. VOF relates to flows that cannot be classified as ODA-like or OOF-like because of a lack of information (Strange et al. 2017). AidData tracks not only actual flows but also pledges, which are significant for researchers of dollar diplomacy.

Unfortunately the AidData dataset does not cover the period 2015-2018 and so a separate dataset had to be created for these years. Working with a group of Master's students, I used Google and LexisNexis to track Chinese FA including pledges.<sup>7</sup> Information about the scope of a country's FA was retrieved from Chinese sources (media, ministries, embassies, and political representatives) along with sources in recipient countries (local media, government ministries and agencies, and political representatives). The findings were cross-checked against international media and academic publications. Details of loans to Latin American countries were retrieved from the China-Latin America Finance Database (Gallagher and Myers 2017). Where different values were identified for the same item, the lower amount was listed.

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<sup>7</sup> Given the limited scope of this article, these data are not presented here. Further details can, however, be provided on request. Please contact waisova@kap.zcu.cz.

## 2.4 Bilateral Trade Agreements and Other Treaties on Economic Profit

The idea that bilateral trade agreements (BTAs) and other economic treaties might have a positive effect on profits is well established among both international trade scholars and practitioners. BTAs are believed to open up opportunities for exporters and investors to expand their businesses. They can also improve market access, stimulate competition among domestic players, reduce or eliminate tariffs and quotas, and encourage investment, productivity, and innovation (Baggs and Brandner 2006; Goyal and Joshi 2006). Since China is a rapidly growing market, gaining privileged access to it is seen as a gateway to prosperity. My research thus, examined the existence of BTAs and other economic and trade treaties between particular countries and China. For all identified treaties, the date when Beijing or the recipient country announced the beginning of negotiations was recorded. The logic here was that the start of negotiations reflected the promise of economic profit in the relatively near future. Data on BTAs and other agreements were drawn from the UNCTAD Investment Policy Hub's dataset of bilateral and multilateral trade and economic agreements, the WTO Regional Trade Agreements Information System, and the online archives of the ministries of commerce, ministries of foreign affairs, and embassies of China and the relevant countries. All findings were triangulated using information from local and international media.

## 2.5 Confucius Institute

Like other countries, China seeks to enhance its international reputation, and it has created a special body called the Confucius Institute (CI) with this aim in mind. Though the CI began as a non-profit initiative, the Chinese government has operated these organisations since 2004, and at the end of 2018, there were 525 CIs in 142 countries (Hanban 2018). The CI is a Chinese Ministry of Education programme financed through foreign aid, whose official mission includes sharing information 'about Chinese language and culture' and providing '[a] platform for cultural exchanges between China and the world [...] and a bridge reinforcing friendship and cooperation between China and the rest of the world' (Hanban 2018). Hanban, a public institution affiliated with the Ministry of Education, administers CIs and the Chinese government provides an administrator, teachers, and funding through this agency. Although CIs are set up in partnership with the recipient country, the Hanban-appointed administrator has the final say over their operations and activities, thus ensuring that Beijing retains control over every CI.

While CIs certainly carry out educational and cultural activities, they are also as experts (Harting 2015; Stambach 2017; Starr 2009) note, an important diplomatic and financial tool for the Chinese government, which uses them to channel funds and communicate specific strategic narratives about China and its place in the world. Among the purposes for which Beijing use CIs are to attract the interest of local populations; to sway public opinion in China's favour; to recruit locals for projects; to manage debates on sensitive issues like Taiwan and Tibet; to advance foreign policy interests; to promote cooperation with local businesses; and to create market opportunities (Custer et al. 2018; Lien and Oh 2014; Lien et al. 2012). Many countries are interested in working with CIs in order to court Chinese investors.

Given this background, the presence of CIs in countries that have shifted their loyalties from Taiwan to China is highly relevant. Unfortunately, there has long



been a lack of quantitative data concerning the resources being channelled through CIs. We can however, at least access information about the emergence of CIs in particular countries. The establishment of a CI which is also used to channel funds would support the idea that Beijing is using dollar diplomacy and expanding its influence in the target country. Information about the existence of CIs was retrieved from Hanban's website and confirmed based on details on the website of the particular CI and local media reports.

## 2.6 Approved Destination Status

China introduced an Approved Destination Status (ADS) policy in the early 1990s to address the growing interest of Chinese citizens in foreign travel. While in 1993 3.74 million Chinese citizens travelled overseas, in 2014 the number exceeded 100 million (National Bureau of Statistics in China 2016). ADS is granted to partner countries under a bilateral governmental agreement which allows those countries to receive tourist groups from China. As of 2018, 156 countries had been given this status. The granting of ADS is understood to be a sign of China's support (Chen and Duggan 2016; Tse 2013). While in 1995, the average Chinese tourist spent approximately 820 USD per trip, in 2014, this figure had risen to about 1500 USD (UNWTO 2017). ADS is, thus, clearly a source of financial profit. ADS-related data were obtained from the website of the Chinese Ministry of Culture and Tourism. These findings were triangulated using data from official tourism and foreign affairs bodies in recipient countries and local media reports.

## 2.7 Participation in a Multilateral Institution Managed and Funded by China

The economic and political rise of China has led to a widening of the country's international engagement strategies. In particular, the PRC has established several cooperative frameworks that should pave the way for its economic and political progress in different regions. These cooperative frameworks are managed and funded by China, and they connect the PRC with potential cooperating countries. These projects include the Forum on China-Africa Cooperation (FOCAC), the Forum for Economic and Trade Co-operation between China and Portuguese-speaking Countries (Forum Macau), One Belt, One Road (OBOR) and the Forum of China and the Community of Latin American and Caribbean States (China-CELAC Forum).

The FOCAC was established in 2000 as an institutional framework for political dialogue and economic cooperation between China and Africa. The framework works mainly through a system of ministerial conferences that should bring together Chinese and African foreign affairs and finance ministers every three years. The FOCAC secretariat is located in the Chinese MFA, which also has a coordinating role. Beijing proposes projects and funding through the FOCAC but projects are usually coordinated through separate bilateral arrangements in the implementation phase. In 2006, China pledged to route 5 billion USD through the FOCAC. In 2012, this pledge increased to 20 billion USD, and at the 2018 FOCAC summit, Beijing promised another 60 billion USD (FOCAC n.d.).

Forum Macau was launched in 2003. An initiative by China's central government, the project was established together with Portuguese-speaking countries and with the cooperation of the Macao Special Administrative Region. Forum Macao is a system of multilateral intergovernmental cooperation that promotes

economic exchange and trade and uses Macao as a connecting hub among participants. In 2010, Beijing announced an initial budget of 1 billion USD for the forum (Macauhub 2017b).

One Belt, One Road (OBOR) was established in 2013 and has an estimated value of 900 billion USD (Phillips 2017). The project has two parts: the Economic Land Belt and the Maritime Silk Road. OBOR aims to offload China's industrial overcapacity and infrastructure development capital and improve the country's connectivity with the world. Beijing is currently planning or carrying out construction and other projects in countries along these routes. At the end of 2018, OBOR included 72 countries.

The China-CELAC Forum is the cooperative framework between Beijing and countries from Latin America and the Caribbean. Launched in 2014, the forum had its first ministerial level meeting in 2015. This arrangement includes several thematic sub-forums such as the China-LAC Infrastructure Cooperation Forum and the China-LAC Business Summit. In 2014, Beijing announced a 35-billion USD financing facility package for the forum (MFA of China 2016, 39).

Information about participation in particular bodies was retrieved from the online archive of the Chinese MFA as well as the foreign affairs ministries of specific countries and the website of the given body. These sources were triangulated using information from local and international media. The usefulness of this indicator is, of course, limited because several of these institutions were only established recently.

### 3 CASE STUDIES

The following section contains 13 country case studies which each present empirical data about all of the independent variables considered in this study (for a summary see Table 2). The case studies are listed chronologically based on the date when the country established diplomatic ties with the PRC. Each study includes a short analysis of the change in diplomatic position along with findings for the independent variables; accompanying graphs depict volumes and related trends. These graphs track the ten-year period beginning four years before the diplomatic shift and extending through the year of that change and the next five years.

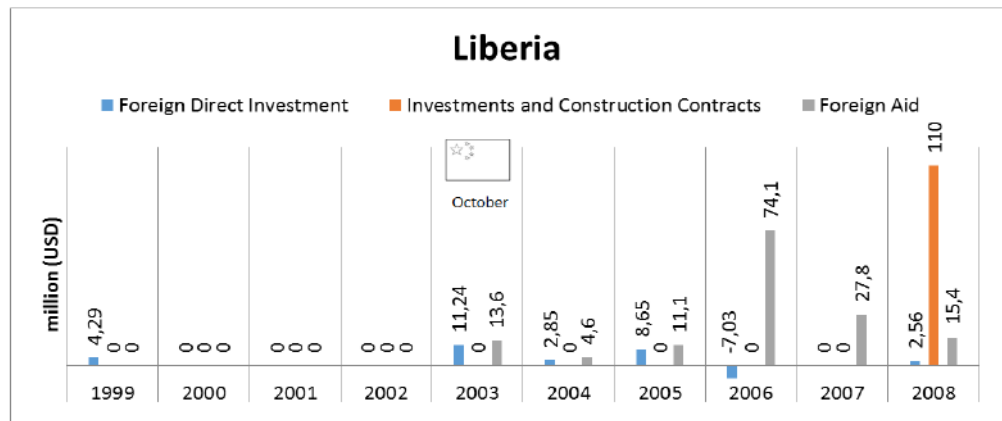
TABLE 2: SUMMARY OF INDEPENDENT VARIABLES

Description	Trend/value	Source
Chinese FDI flows into the recipient country [FDI]	Growth	Chinese MOFCOM; Statistical Bulletin of China's FDI
Chinese investments and financial participation in construction contracts [ICC]	Growth	China Global Investment Tracker; author's own data for 2000-2004
Chinese foreign aid [FA]	Growth	Global Chinese Official Finance Dataset; AidData; China-Latin America Finance Database; author's own dataset for 2015-2018
Bilateral trade agreements and other economic or commercial treaties [BTI]	Date when negotiations started	Chinese MOFCOM and MFA treaty databases; foreign affairs ministries of recipient countries; UNCTAD Investment Policy Hub; WTO Regional Trade Agreements System; other government ministries of affected countries. Findings were cross-checked using information from local and international media
Confucius Institute [CI]	Date when CI was established or negotiations started	Hanban
Approved Destination Status [ADS]	Date when status was granted or negotiations started	Chinese Ministry of Culture and Tourism. Findings were cross-checked using information sourced from the World Tourism Organization and authorities and media in affected countries
Participation in a multilateral institution managed and funded by China [MIP]	Membership or other form of participation/year	Websites of FOCAC, Forum Macau, OBOR, and China-CELAC Forum; Chinese and local media; foreign affairs ministries of individual countries

*Liberia*

Relations between China and Liberia have been broken and re-established several times since 1977 when the two states first formed diplomatic ties. Liberia severed its ties with Taiwan for the last time in October 2003 and proceeded to re-establish relations with the PRC (Embassy of the PRC in Liberia n.d). China-Liberia relations reached the new peak in 2013. Since then, newly financed by China and by Chinese companies, constructed projects included the setting up of public buildings, sports stadium, health delivery and educational facilities and telecommunications sectors. During the outbreak of the Ebola virus, China responded with medical aid and cash. In 2011, Beijing sent a team to support the UN peacekeeping operation and it also undertook millions of dollars' worth of projects to support the Liberian army and security apparatus (Gray 2018). In 2018 both countries signed the new maritime deal which also means that Liberian flag bearing vessels will get a preferential rate for tonnage dues when visiting Chinese ports.

FIGURE 1: CHINESE DOLLAR DIPLOMACY: LIBERIA



Existence of bilateral trade or other economic agreements: Beijing terminated all its projects and treaties with Liberia in 1989, not long after Liberia switched allegiance to Taiwan. Current Chinese-Liberian agreements on trade, economic

cooperation, and development were all negotiated after October 2003 (MFA of Liberia n.d.). Beijing used the 2006 FOCAC summit as an opportunity to negotiate several economic cooperation and development treaties with Liberia (Moumouni 2014).

Presence of the Confucius Institute: Yes, since 2008.

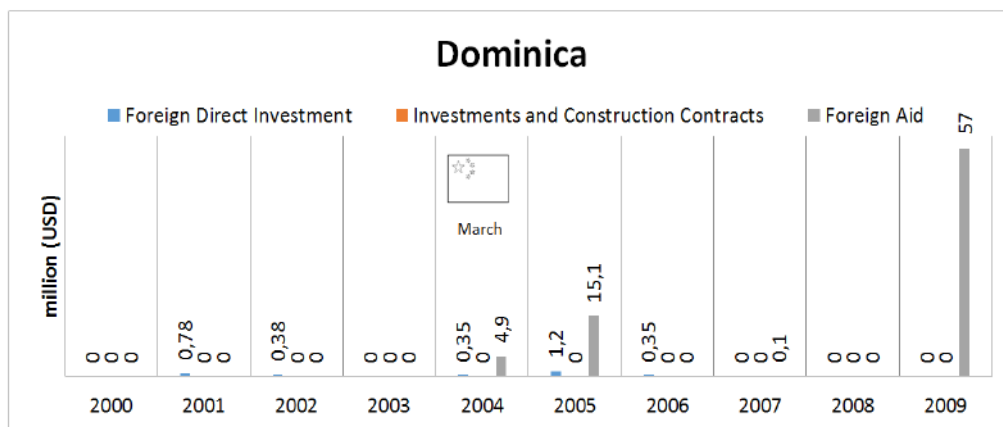
Award of ADS: None at the end of 2018.

Participation in a multilateral institution managed by China: FOCAC membership since December 2003; OBOR membership since 2018.

*Dominica*

China and the Commonwealth of Dominica have had a diplomatic relationship since March 2004. Since then China has provided to Dominica assistance in areas of infrastructure, agriculture, education and medical services In October 2018 the two countries signed economic and technical cooperation agreement worth millions of dollars. The areas in which agreements are expected to be signed in 2019 include tourism, agriculture and free zones. While Dominican-Chinese relations prosper, the US warned Dominica not to accept more financial aid from Beijing (Caribbean Council n.d.b).

FIGURE 2: CHINESE DOLLAR DIPLOMACY: DOMINICA



Existence of bilateral trade or other economic agreements: Several economic, trade, development, and military aid treaties exist between Dominica and China. All were signed after March 2004 (Dominica News Online 2017).

Presence of the Confucius Institute: Yes, since 2015. The CI located in Barbados is shared with Dominica.

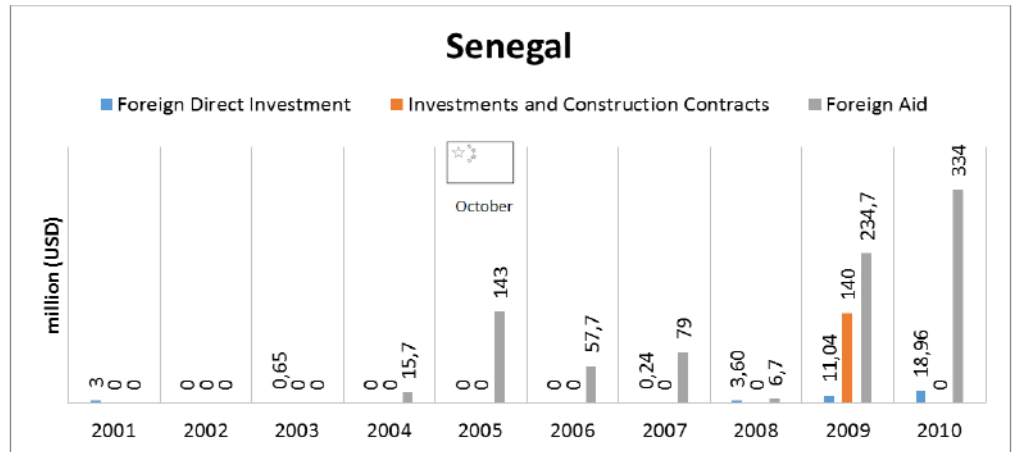
Award of ADS: Awarded in the summer of 2004.

Participation in a multilateral institution managed by China: China-CELAC Forum member since 2014; OBOR negotiations started in 2018.

*Senegal*

Senegal established diplomatic ties with the PRC in 1973. This relationship lasted until 1996 when Senegal resumed relations with Taiwan. PRC-Senegal relations were restored in October 2005 when Senegal cut ties with Taiwan. Since then Beijing invested in construction and infrastructure projects. In 2019 Senegal signed cooperation documents with China under the Belt and Road Initiative and Beijing granted Senegal a role as co-chair of FOCAC.

FIGURE 3: CHINESE DOLLAR DIPLOMACY: SENEGAL



Existence of bilateral trade or other economic agreements: Agreements suspended in 1996 were restored in October 2005 when new trade talks began between the two countries (State Council of the PRC 2005). While some Chinese companies stayed in Senegal after 1996, this was on a strictly private basis (Gehrold and Tietze 2011). New rounds of economic, trade, and development treaty negotiations opened up in 2016 and again in 2018 (Saudi Press Agency 2018).

Presence of the Confucius Institute: Yes, since 2012.

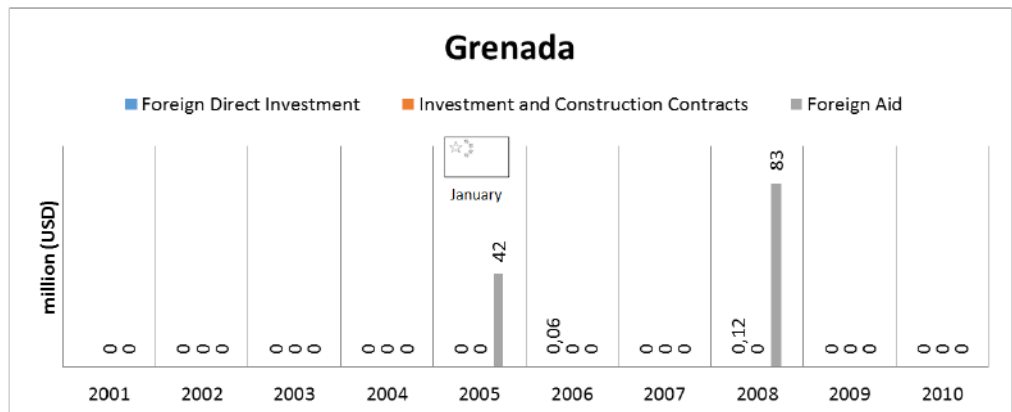
Award of ADS: Awarded in 2016.

Participation in a multilateral institution managed by China: FOCAC member since 2006; OBOR negotiations started in 2018.

*Grenada*

Grenada recognised Taiwan since 1989 but by January 2005, it had resumed diplomatic relations with Beijing. When negotiations with the PRC began, Grenada expressed its hopes of obtaining reconstruction aid to repair damage from Hurricane Ivan (BBC 2005). The Taiwanese media reported that the Chinese Red Cross had provided 50,000 USD to Grenadine political representatives (Taipei Times 2005). No other source confirmed this report.

FIGURE 4: CHINESE DOLLAR DIPLOMACY: GRENADA



Existence of bilateral trade or other economic agreements: Agreements between the PRC and Grenada were suspended in 1989. Since January 2005, new treaties have been negotiated and concluded.

Presence of the Confucius Institute: No CI has been established but a Confucius Classroom has been in place since 2015.

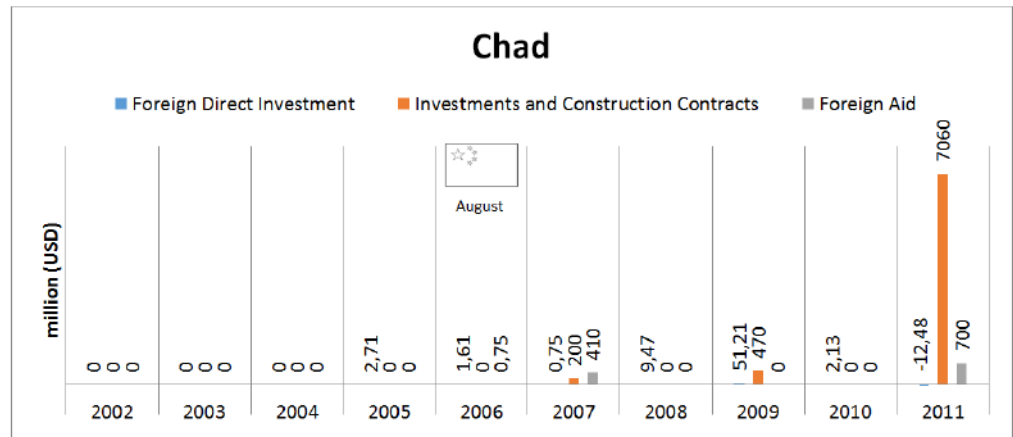
Award of ADS: Awarded in 2006.

Participation in a multilateral institution managed by China: Member of the China-CELAC Forum since 2014.

*Chad*

China suspended its diplomatic ties with Chad in 1997 when the country recognised Taiwan. In August 2006, Chad and the PRC resumed their relationship after Chad accepted Beijing’s One-China Policy. Since then oil investment looks set to play a key part in China’s continuing engagement with the country. After the World Bank in 2018 withdrew its funding for the Chadian government on the grounds that it had violated their bilateral agreement, Beijing quickly seized the opportunity to extend its engagement and offered to build roads, bridges, hospitals, schools and even airports.

FIGURE 5: CHINESE DOLLAR DIPLOMACY: CHAD



Existence of bilateral trade or other economic agreements: Negotiations of economic, trade, technical, and development cooperation have been under way since August 2006. Beijing is mainly interested in Chadian oil (Dittgen and Large 2012).

Presence of the Confucius Institute: None.

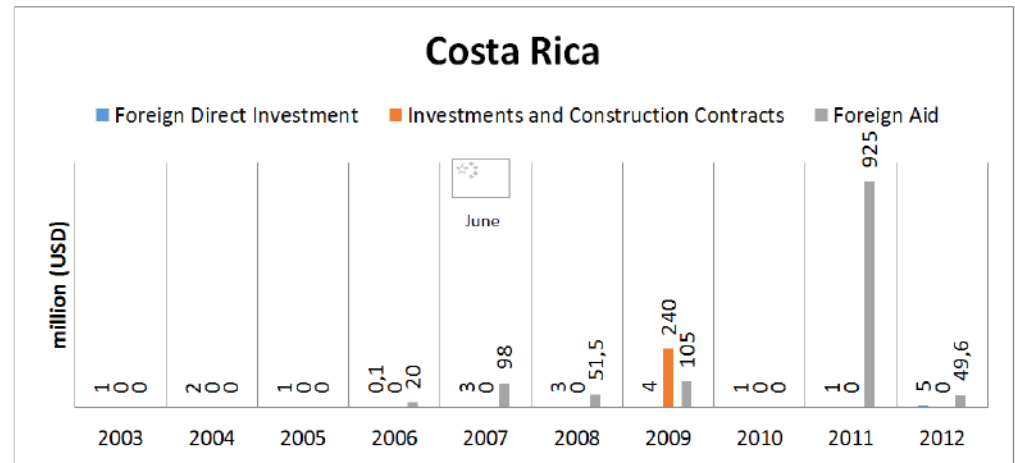
Award of ADS: None at the end of 2018.

Participation in a multilateral institution managed by China: FOCAC member since August 2006; OBOR negotiations started in 2017.

*Costa Rica*

Costa Rica and the PRC first held talks in the 1990s to explore setting up diplomatic relations. These efforts were thwarted, however (Casas-Zamora 2009), and the two states did not establish diplomatic ties until June 2007. Later, it was revealed that the PRC had pledged foreign aid to Costa Rica under a memorandum on setting up diplomatic relations. Under this deal, Beijing agreed to buy 300 million USD in bonds and give 130 million USD in aid (Bowley 2008).

FIGURE 6: CHINESE DOLLAR DIPLOMACY: COSTA RICA



Existence of bilateral trade or other economic agreements: All treaty and agreement negotiations between Costa Rica and the PRC began after June 2007. Free trade agreement talks were announced in 2008 (Casas-Zamora 2009). In 2015, the two countries announced a strategic trade and economic cooperation partnership.

Presence of the Confucius Institute: Yes. An agreement was signed in 2008.

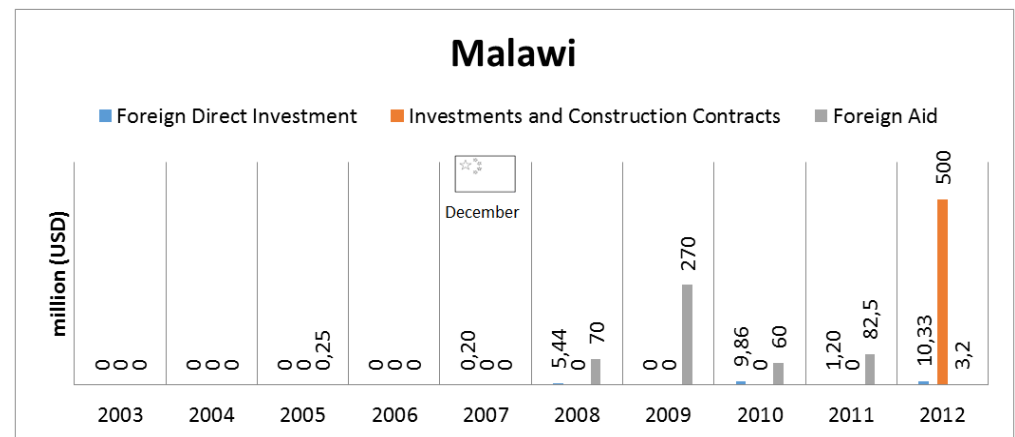
Award of ADS: Awarded in the autumn of 2007.

Participation in a multilateral institution managed by China: China-CELAC Forum member since 2014; OBOR negotiations started in 2018.

*Malawi*

Malawi and the PRC formed diplomatic ties in January 2008 though Malawi later backdated the commencement to December 2007. Taipei has claimed that the two states also signed a secret agreement about the transfer of approximately 6-billion USD in aid to Malawi once diplomatic links had been established (Wikileaks 2008). No other party has confirmed this allegation.

FIGURE 7: CHINESE DOLLAR DIPLOMACY: MALAWI



Existence of bilateral trade or other economic agreements: In March 2008, Malawi and the PRC concluded their first bilateral agreement on trade, investment, and technical cooperation. In May the same year, they signed a memorandum on future cooperation (Chirombo 2017).

Presence of the Confucius Institute: Yes. A cooperation agreement was signed in 2013.

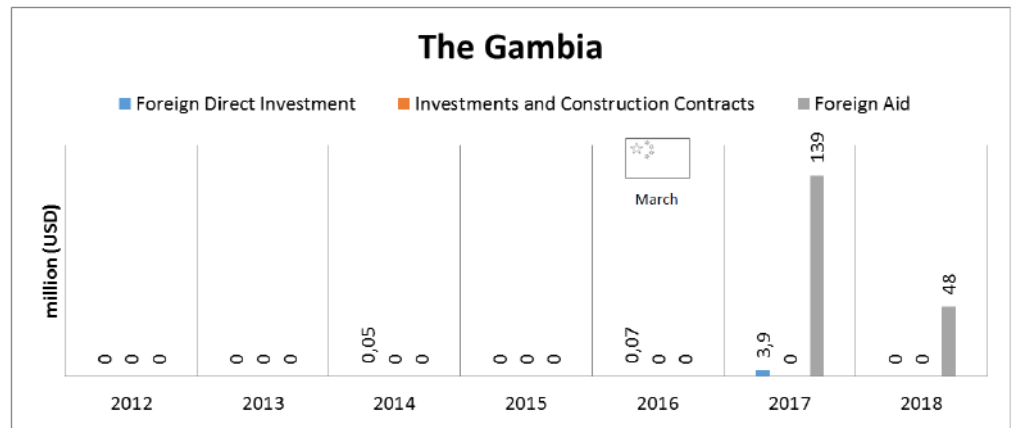
Award of ADS: None, but in 2018 the Chinese embassy in Malawi encouraged Chinese tourists to visit the country (MW Nation 2018).

Participation in a multilateral institution managed by China: FOCAC member since 2008 (invited to participate as an observer in 2006) (State Council of the PRC 2006).

*The Gambia*

The Gambia broke off ties with Taiwan in 2013. In March 2016, Beijing and the Gambia normalised their diplomatic relations. In 2017 Beijing committed to invest 75 million USD for the construction of roads and bridges in the country. In June 2019 Gambia reaffirmed its commitment to the one-China policy, consequently Beijing mentioned it would promote the Gambia as a destination for Chinese tourists (Office of the President 2019).

FIGURE 8: CHINESE DOLLAR DIPLOMACY: THE GAMBIA



Existence of bilateral trade or other economic agreements: In 2017, the PRC and the Gambia signed a memorandum on economic, trade, investment, and technical cooperation. The two states launched a joint committee on economics and trade.

Presence of the Confucius Institute: Negotiations started in 2018.

Award of ADS: None at the end of 2018.

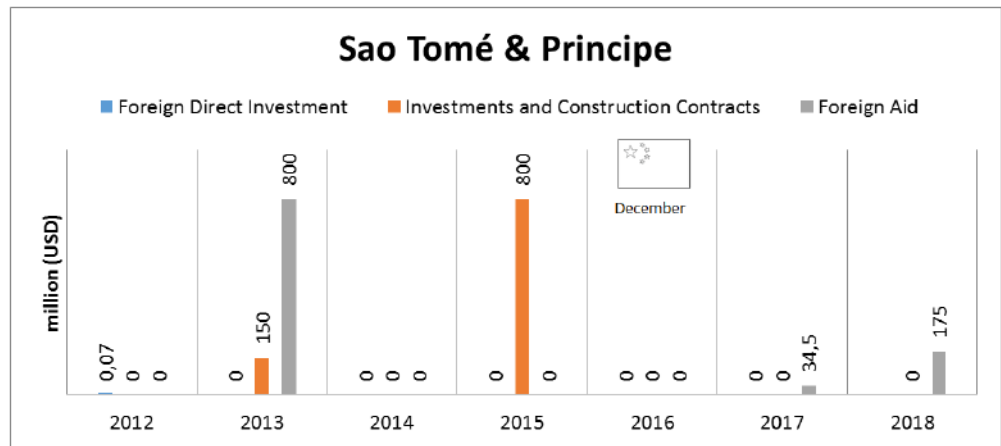
Participation in a multilateral institution managed by China: FOCAC member since 2017 (invited to take part as an observer in 2006) (State Council of the PRC 2006); OBOR negotiations started in 2018.

*Sao Tomé e Príncipe*

In 2013, Sao Tomé announced China’s plans to open a trade office in the country. Observers noted the Chinese interest in Sao Tomé’s oil resources. In 2016, Sao Tomé revealed it had cut ties with Taiwan, and in December 2016, it established diplomatic relations with the PRC (Reuters 2016). Taipei claims that before shifting its loyalty to the PRC, Sao Tomé demanded ‘an astronomical amount of financial help’ from Taipei (BBC 2016). Information appeared that China has pledged to provide the archipelago with millions of dollars for the modernization of its international airport and the construction of a deep-sea container port (Crabtree 2018).



FIGURE 9: CHINESE DOLLAR DIPLOMACY: SAO TOME



Existence of bilateral trade or other economic agreements: The first treaties between Sao Tomé and the PRC were signed in April 2017 (Macau 2017). Earlier, in October 2015, Sao Tomé announced it had agreed to build a deep sea port in partnership with China.

Presence of the Confucius Institute: An agreement to set up a CI was signed in 2018.

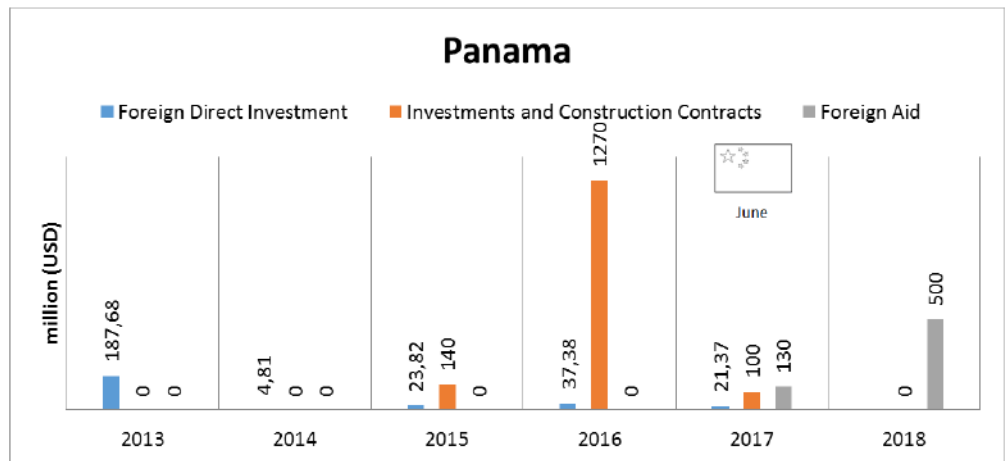
Award of ADS: In 2017, Sao Tomé’s foreign affairs ministry declared the start of ADS negotiations (Macauhub 2017a).

Participation in a multilateral institution managed by China: FOCAC member since September 2018 (invited to take part as an observer in 2006) (State Council of the PRC 2006); Forum Macao member since 2017; OBOR negotiations started in 2018.

*Panama*

Between 2009 and 2010, Panama made efforts to form diplomatic ties with the PRC. However, Beijing rejected this offer because of concerns about jeopardising its improving relationship with Taiwan (Wikileaks 2011). Instead, a Panama-China trade development office was opened in Panama. New negotiations between the two states began in 2017 leading to the establishment of diplomatic ties in June of that year.

FIGURE 10: CHINESE DOLLAR DIPLOMACY: PANAMA



Existence of bilateral trade or other economic agreements: Since the summer of 2017, Panama and the PRC have concluded more than 28 diplomatic and

investment agreements. Panama now has most favoured nation trade status, and in July 2018, negotiations of a free trade agreement began (The Guardian 2018a).

Presence of the Confucius Institute: Negotiations started in 2016, and a CI has existed since September 2017.

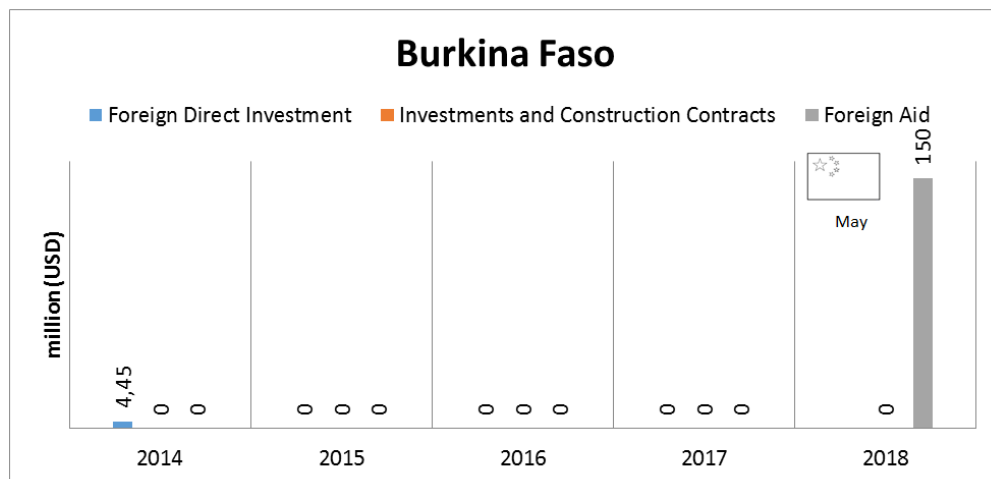
Award of ADS: Awarded in 2018.

Participation in a multilateral institution managed by China: China-CELAC Forum member since the summer of 2017; OBOR negotiations started in 2018.

*Burkina Faso*

Beijing has had unofficial contact with some Burkinabe politicians since 2005. Since 2011, Sino-Burkinabe Friendship Forum, a private organisation in Burkina Faso, has been allowed to issue Chinese visas to Burkina Faso citizens and residents (Cabestan 2017). The two countries formed diplomatic ties in May 2018. In a media interview that year, Burkinabe Foreign Minister Alpha Barry revealed that the PRC had offered Burkina Faso 50 million USD in 2017 in return for diplomatic recognition (Bloomberg 2018).

FIGURE 11: CHINESE DOLLAR DIPLOMACY: BURKINA FASO



Existence of bilateral trade or other economic agreements: Negotiations started at the end of 2018.

Presence of the Confucius Institute: Yes, since May 2018.

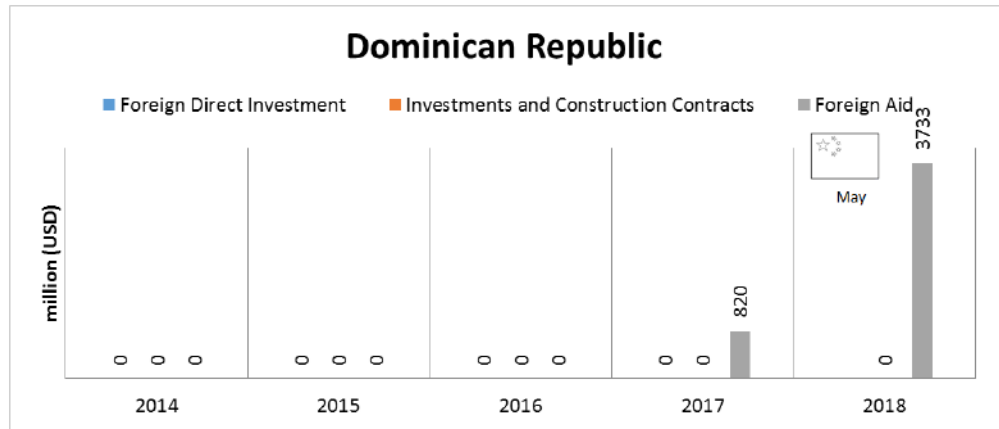
Award of ADS: None at the end of 2018.

Participation in a multilateral institution managed by China: FOCAC member since August 2018 (invited to take part as an observer in 2006) (State Council of the PRC 2006).

*The Dominican Republic*

China and the Dominican Republic first held talks on diplomatic recognition in 2004. Those negotiations resulted in the opening of Dominican trade offices in Hong Kong and Beijing (Wikileaks 2004). Commercial links developed over the next few years, with particular progress between 2012 and 2014 when China approved the import of Dominican cigars (Xinhuanet 2018b). In November 2017, talks began on establishing official relations and those relations commenced in May 2018 (Dominica Today 2017).

FIGURE 12: CHINESE DOLLAR DIPLOMACY: THE DOMINICAN REPUBLIC



Existence of bilateral trade or other economic agreements: BTA negotiations started in May 2018 although some commercial ties existed before 2018. As of December 2018, the PRC and the Dominican Republic had concluded 18 agreements (Caribbean Council n.d a).

Presence of the Confucius Institute: Yes, since the autumn of 2018.

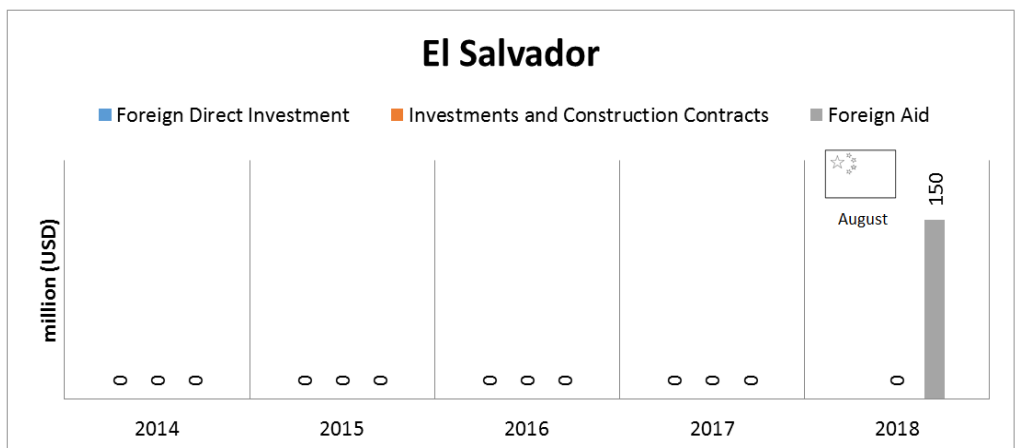
Award of ADS: Awarded in June 2018.

Participation in a multilateral institution managed by China: Participated in the China-CELAC Forum for the first time in January 2018.

*El Salvador*

El Salvador and the PRC formed diplomatic ties in August 2018. Previously, however, the leftist party Farabundo Martí National Liberation Front maintained relations with Beijing (Wikileaks 2005). Both Taiwan and the United States were outraged by this connection and have accused El Salvador of making various financial demands. In particular, Taiwan claims that El Salvador asked it to provide an ‘astronomical sum’ for a port project and that when Taipei responded coldly, El Salvador launched talks with Beijing (The Guardian 2018b). El Salvador has denied this allegation. Observers say it is unclear whether China offered any specific aid or economic incentive to El Salvador (Reuters 2018b).

FIGURE 13: CHINESE DOLLAR DIPLOMACY: EL SALVADOR



Existence of bilateral trade or other economic agreements: The first negotiations started in the autumn of 2018 (Xinhuanet 2018a).

Presence of the Confucius Institute: Yes, since May 2018.

Award of ADS: None at the end of 2018.

Participation in a multilateral institution managed by China: China-CELAC Forum member since August 2018; negotiations about OBOR membership started in 2018.

#### **4 CONCLUSION: YES, BEIJING IS USING DOLLAR DIPLOMACY, HOWEVER THE MOTIVATION OF THE RECIPIENT STATES IS NOT ALWAYS ECONOMICAL AND THE MOTIVATION OF BEIJING IS NOT ALWAYS TO ABANDON TAIWAN**

This article responds to the argument that Beijing has been using economic incentives to cause recipient nations to switch their diplomatic allegiances, that is, to break off ties with Taiwan and recognise the PRC. Based on the data collected, we can draw a number of conclusions about Chinese dollar diplomacy and the causes and effects of the links between Beijing and Taiwan's former diplomatic friends.

The empirical data shows that the PRC uses dollar diplomacy concerning Taiwan's diplomatic allies. In the case of eleven countries, capital flows or economic benefits were provided before diplomatic ties were established (Table 3). The new diplomatic ties between the PRC and individual countries further opened the door to the flow of capital and economic opportunities and relations. These countries gained foreign aid, received approved destination status, and benefited from the establishment of Confucius Institutes. Moreover through their investments, construction contracts, and membership of multilateral institutions managed by China, they were able to access Chinese loans and other financial resources.

However, the strategy has been applied to various recipient countries differently. It was clear from the same data that China offered virtually none of Taiwan's friends a systematic and permanent set of economic incentives. There were big differences among the eleven countries where capital flows and economic relations were identified before forming diplomatic ties. The data did not point to any pattern of flows, or incentives and offers across these states. The graphs in the case studies show that the volumes of capital flows like foreign direct investment and foreign aid were unstable (only in the case of Senegal did FDI rise for four successive years) and even after diplomatic ties had been established, the conferral of economic advantages was not automatic.

Several countries did not receive these benefits for almost a decade. Of the cases examined here, there were two countries, Dominica and Grenada, which did not receive any significant economic profit as a result of the diplomatic change (for more information, see graphs 2 and 4 above). While the reasons for this warrant more exploration, these inquiries exceed the scope of the current study. And in states like Panama, the Dominican Republic, and Sao Tomé, which saw the biggest input of capital and the most lucrative economic deals including the setting up of trade and economic offices and contracts China's use of dollar diplomacy leaves several unanswered questions. In the case of Panama, Beijing was interested in making use of the Panama Canal and playing a part in its reconstruction (The Guardian 2018a). Concerning Sao Tomé, Beijing was keen to access the country's newly discovered offshore oil deposits (Reuters 2013; ABC News 2016). Finally, the Dominican Republic offered tobacco, rum, minerals, and an attractive tourist destination in response to the growing demands of the Chinese market (Brito and

Jianrong 2018). In the cases of Panama and El Salvador, it may even be that, as several observers have said (Harris 2018; Reuters 2018b; Telesur 2018), China’s goal is not to suppress Taiwan but to undermine the US’s power. It appears, thus, that in the case of many of these economic alliances, the isolation of Taiwan was not the only aim.

**TABLE 3: CAPITAL FLOWS AND ECONOMIC STIMULI BEFORE THE DIPLOMATIC SHIFT**

Country	FDI*	ICC	FA	BTA	CI	ADS	MIP
Liberia							
Dominica	X						
Senegal	X		X				
Grenada							
Chad	X						
Costa Rica	X		X				
Malawi	X		X				X
The Gambia	X						X
Sao Tomé	X	X	X				X
Panama	X	X	X		X		
Burkina Faso	X						X
Dominican R.			X				X
El Salvador					X		X

\* For acronyms see chart 2. Source: Author based on empirical data from case studies.

The experiences of Panama and the Gambia also supported the view that China’s actions were not reckless or impetuous. During the administration of former Taiwanese president Ma (2008–2015) at least, cross-strait relations improved and Beijing was hesitant to form ties with Taiwan’s diplomatic allies. The fact that there was no change in the diplomatic relations with Panama and the Gambia between 2007 and 2016 (Table 1), even as both these states expressed interest in joining China’s side, suggests that the PRC adjusted its actions and policies based on the quality of its relationship with Taiwan. In the case of Panama, the lack of diplomatic relations may even be seen as detrimental to Chinese economic interests (Chinese companies were excluded from construction contract bids in the country while Beijing faced the prospect of complicated international transport routes). Even so, Beijing postponed establishing diplomatic ties.

**TABLE 4: CAPITAL FLOWS AND ECONOMIC STIMULI AFTER THE DIPLOMATIC SHIFT**

Country	FDI	ICC	FA	BTA	CI	ADS	MIP
Liberia	X	X	X	X	X		X
Dominica	X		X	X	X*	X	X*
Senegal	X	X	X	X	X*	X*	X
Grenada	X		X	X		X	X*
Chad	X	X	X	X			X
Costa Rica	X	X	X	X	X	X	X*
Malawi	X	X	X	X	X*		X
The Gambia	X		X	X	X		X
Sao Tomé			X	X	X		X
Panama	X	X	X	X	X	X	X
Burkina Faso	N/A		X	X	X	X	X
Dominican R.	N/A		X		X		X
El Salvador	N/A		X	X	X		X

\* Country received the benefit more than five years after the diplomatic switch. Source: Author based on empirical data from case studies.

It was also clear that recipient countries had some reservations and doubts about accepting Chinese money and offers and that Taiwan’s former (and current) friends recognised potential risks as well as benefits arising from their ties with

the PRC. A good example is the Malawi government, which held extended debates about the risks of entering a debt trap when considering Chinese loans (Ngozo 2011). In March 2018, the Gambian parliament also rejected a framework agreement on a Chinese concessional loan after finding out that the agreement was not transparent enough and posed several risks to the country (Bah 2018). Both these critical responses suggest that Beijing may need to revise and transform the structure and tools of its economic diplomacy.

We may conclude, then, that there is sufficiently conclusive empirical data to confirm China's use of dollar diplomacy vis-à-vis Taiwan's diplomatic allies. For most of these countries, their diplomatic recognition of the PRC has enabled rich economic, trade, and development links with China and all of them profited from the diplomatic change. However, there should be further discussions, if the increase in capital flows and economic ties were only motivated by the interest of China in isolating Taiwan.

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