

Taiwan and Palau: How to maintain this diplomatic alliance?

Kristína Kironská

Institute of China and Asia Pacific Studies, College of Social Sciences, National Sun Yat-sen University, Kaohsiung, Taiwan.

Accepted 10 June, 2013

ABSTRACT

The People's Republic of China, sometimes simply referred to as China, will not tolerate independence for Taiwan (Republic of China) and a formal declaration of independence would most probably bring military intervention. At the moment, the best Taiwan can do is to retain its *status quo*. Taiwan has been trying to overcome its diplomatic isolation by allying with countries that hold United Nations votes and are willing to vote for Taiwan. This quest for recognition has been particularly oriented towards newly established small and poor countries where it is most likely to succeed. There are twenty-three countries that officially recognize Taiwan. Palau, a small island state with a little over 20,000 inhabitants is one of them. The focus of this paper is to examine how Taiwan maintains this official diplomatic tie established in December 1999 in the wake of the China-Taiwan competition. General tactics of the Taiwanese Foreign Policy are applied on this one particular example, Palau, one could think, not important microstate in the Pacific. This paper examines the impact of political ideology, foreign aid, and dollar diplomacy on the quality of the alliance between Taiwan and Palau. It also aims to research whether the Taiwan-Palau alliance is sustainable for the future.

Keywords: Taiwan's foreign relations, Palau, diplomatic alliance, dollar diplomacy.

E-mail: k.kironska@gmail.com. Tel: +886 923 51 50 51.

INTRODUCTION

In 1971, the United Nations (UN) General Assembly voted to give the "China seat" to the People's Republic of China (PRC), replacing the charter and founding member Republic of China (ROC) (hereinafter "Taiwan"), its sovereignty was threatened. Since then, for over four decades, Taiwan has been facing the problem of diplomatic isolation. Taiwan is recognized by twenty-three states (Table 1), which is around 12% of all countries in the world.¹ The small island state Palau (Appendix 1) is one of them. This alliance is particularly puzzling since Palau is very small and has only around 21,000 inhabitants.²

The Taiwan issue was transformed into a domestic matter to be resolved by the PRC. The PRC will not tolerate independence for Taiwan (a formal declaration of independence will bring military intervention), and is trying to prevent the Taiwan issue from re-emerging at the UN level, where some of Taiwan's allies (such as the Solomon Islands and the Marshall Islands) raise this question.³ According to the UN constitution, countries that are part of the UN have the right to propose other countries as members. They have to give reasons for

¹ Calculated as a percentage (11.7%), 23 states out of the total amount of countries 196 (196 according to About.com Geography: <http://geography.about.com/cs/countries/a/numbercountries.htm>).

² Palau - CIA Factbook. Retrieved November 19, 2012 from <https://www.cia.gov/library/publications/the-world-factbook/geos/ps.html>

³ In 1993, Taiwan's allies initiated annual debates on whether ROC should be readmitted to the UN.

At first, the bids were aimed at establishing Taiwan as a sovereign state next to China. Later attempts were aimed at participation in the UN activities without a full membership request. In 2007, Taiwan again asked for full membership, and in 2008 Taiwan shifted its attention to participation in the UN specialized agencies. Taiwan currently holds the observer status in the WHO's World Health Assembly.

Table 1. Taiwan's diplomatic allies.

Region	Country
Europe (1 country)	The Holy See (Vatican)
Africa (4 countries)	Burkina Faso
	Democratic Republic of Sao Tome and Principe
	Kingdom of Swaziland
	Republic of the Gambia
East Asia and Pacific (6 countries)	Republic of Kiribati
	Republic of Nauru
	Republic of Palau
	Republic of the Marshall Islands
	Solomon Islands
	Tuvalu
Central and South America (12 countries)	Belize
	Dominican Republic
	Republic of El Salvador
	Republic of Guatemala
	Republic of Haiti
	Republic of Honduras
	Republic of Nicaragua
	Republic of Panama
	Republic of Paraguay
	Saint Christopher and Nevis
	Saint Lucia
	Saint Vincent and the Grenadines

Source: MOFA ROC (Taiwan)

their suggestion in a so-called memorandum. However, so far, the UN General Assembly has blocked Taiwan's bid at the UN each year.

The PRC prevents the Taiwan issue from re-emerging at the UN level for various reasons, the most apparent is the fear of secession of other "non-Han" areas (such as Tibet or Mongolia). Most of the countries, on demand of the PRC, adopted the general view, the one-China policy and are showing no interest in the Taiwan issue. To explain the PRC-Taiwan enmity, it is important to clarify their positions within the international community. The PRC's strong position as a big and strong player in the international arena, especially since it is one of the five members of the UN Security Council, makes Taiwan weak and vulnerable to it.

Given this situation explained above, Taiwan has sought to balance out the PRC as best it can. However, in my opinion, real balance cannot be attained, at least not while the PRC's government holds such a strong and firm grip on world development and economic growth. Taiwan, on the other hand, is too small and powerless in this case. The best it can do is to retain its *status quo*. Taiwan has been trying to overcome its severe diplomatic

isolation by allying with countries that hold votes in the UN General Assembly and the UN specialized agencies. This quest for recognition has been particularly oriented towards newly established small and/or poor countries where it is most likely to succeed. To this day, Taiwan has one diplomatic ally in Europe (the Holy See), four in Africa, six in the Pacific, and twelve in Central and South America.⁴

However, the PRC's demonstration of force has discouraged some of the newly established independent states from recognizing an independent Taiwan. They feared the PRC would veto their application to join the UN if they showed friendliness towards Taiwan. This was the case of the Marshall Islands after its declaration of independence when it was recognized by China in 1990.⁵ Other states, like Nauru, have just played off the two Chinas in order to gain economic advantages and are not

⁴ Taiwan has also unofficial ties with countries that do not recognize it officially, trade missions and representative offices, but these do not provide full political recognition and are not the focus of this research.

⁵ In 1998, Taiwan bid higher and the Marshall Islands switched recognition to Taiwan, and remains Taiwan's ally to this day.



Figure 1. Location of Palau. Source: MapResources.com.

interested in Taiwan's struggle within international politics.⁶

The aim of this paper is not to research so much *why* Taiwan needs allies. But, to examine more *how* Taiwan maintains its already established diplomatic ties (in the PRC-Taiwan competition). Here, we seek to apply the general tactics of the Foreign Policy of Taiwan on a particular example, Palau, a small, one could think, not important micro state in the Pacific. This paper also aims to research whether the Taiwan-Palau alliance is sustainable for the future. To be able to do so, we need to first identify the strategies the Taiwanese government and quasi-private industry have used to solidify ties with Palau, and understand the nature of this alliance. Is this alliance based on political ideology (Palau should stick together with a small democratic nation, Taiwan, instead of the big socialist PRC) or on foreign aid and the so-called "dollar diplomacy"? Is Palau a reliable ally to Taiwan? Once it is understood what stands behind the Taiwan-Palau alliance, future prospects for Taiwan as for how to maintain this one particular ally by its side can be drawn.

Palau, a democracy with a strong presidency, is an island nation in the Pacific Ocean about 800 km east of the Philippines (Figure 1). It emerged from UN trusteeship (administered by the United States) in 1994 and is one of the world's youngest and smallest

sovereign states.⁷ Palau was admitted to the UN on 15 December 1994. In late December 1999, Palau extended official diplomatic recognition to Taiwan.⁸ More information about Palau is given in Appendix 1.

In this paper, the impact of three independent variables (political ideology, foreign aid, and dollar diplomacy) on the dependent variable (the quality of the alliance between Taiwan and Palau) was examined. It is hoped that this research will contribute to scholarship in international relations and political sciences by focusing on the alliance theory; identifying the nature of the Taiwan-Palau alliance from a realist point of view; and highlight the unusual foreign policy methods Taiwan applies when intending to maintain its relationship with Palau. It is hoped that identifying these strategies can provide a basis for future evaluation of this relationship. The scope of this research is from the 1980s (full recognition was preceded by trade relations and friendly visit exchanges between the two countries), to this day, thirty years later.⁹

⁷ In the 1980s, the United States and Palau negotiated the Compact of Free Association which gives the United States military rights in Palau for fifty years in return for financial compensation. The compact took effect in 1994, the same year Palau gained independence.

⁸ Palau maintains embassies in the Philippines, Taiwan, Japan, and the USA. Taiwan, Japan, Philippines, and the USA have embassies in Palau.

⁹ Taiwan has had exchanges with Palau since 1980, signing an agricultural agreement with the island in 1984.

⁶ Nauru established diplomatic ties with Taiwan in 1976, in 2002 it switched recognition to China, and in 2005 again back to Taiwan.

Table 2. Taiwan's foreign aid framework.

Type of aid	Purpose	Source
Humanitarian grant	Diplomatic	MOFA budget
	General	MOFA budget
Low-interest loan	Diplomatic	MOFA budget
	Economic	IECDF
International technical assistance	Diplomatic	MOFA budget
	Economic	IECDF

Source: Cheng (1994).

LITERATURE REVIEW

For the theoretical part of this research, understanding the forces that shape international alliances is crucial. According to Waltz (1979), the international system is characterized by a tendency to form balances of power. Walt (1987) re-formulated this theory to the *balance of threat theory*. One of the propositions of realism in the field of International Relations theories is the anarchic international system. According to Walt (1987), in an anarchic system, states form alliances to protect themselves. Their conduct is determined by the threats they perceive, and the actual power of other countries is merely one element in their calculation. Taiwan seeks to balance itself against the PRC which is threatening Taiwan.

In case Taiwan claimed independence *de facto*, the PRC would not hesitate in using military power. The PRC tries to marginalize Taiwan on the international stage, and Taiwan's original search for status has over the years changed to a desire to maintain status (Taylor, 2002). This is done by buying or renting diplomatic allies. Crucial to understanding this tactic, the "dollar diplomacy", Taylor (2002) explains how it helps win recognition by states. He criticizes this tactic for not creating substantial links between two countries.

The so-called "dollar diplomacy" is one of the Taiwanese foreign policy methods that arose from the combination of Taiwan's weak diplomatic stance and its strong economic power. As Taiwan's economy has grown, it has gone from being an aid recipient to an aid donor. Cheng (1994) explains Taiwanese ways of expanding its foreign relations. Foreign aid (cash grants, development loans and technical assistance) is part of foreign relations and became popular after the Second World War. Economic aid, indeed, helped to raise the number of countries from twenty-two in 1988 to twenty-nine in 1992 (Cheng, 1994). However, more than twenty years later, the number of diplomatic allies dropped again to a similar number – twenty-three. From 1998, the International Economic Cooperation and Development Fund (IECDF) established by the Taiwanese government assists the developing countries. Obviously, the main

motive is to strengthen Taiwan's official diplomatic ties. Grants given for diplomatic purposes are controlled by the ROC Ministry of Foreign Affairs (MOFA) (Table 2).

Furthermore, Taylor (2002) makes an interesting remark in his article as for why Taiwan tries so hard to balance itself against the PRC (a struggle that Taiwan, I argue, cannot win given the current strength of the PRC) and maintain a stable number of diplomatic allies. He calls it the "psychological factor" in the "dollar diplomacy" game where the quality of the alliance is not important; what matters is the quantity.¹⁰

However, both, Taylor (2002) and Cheng (1994) focus on the African nations. This paper extends the examination of Taiwan's "dollar diplomacy" towards Palau, a small island state in the Pacific, the geographically closest of all of Taiwan's diplomatic allies.

Mita (2010) offers an overview of the development of Palau's relations with Taiwan and China (before official tie were established) and describes the rationale behind the alliance choice made by Palau. Even though Taiwan emphasizes similarities in democracy and mutual connections to Palau, one cannot deny the strength of economic relations between Palau and Taiwan, especially Taiwanese funds flowing into Palau. Taiwan is the third largest investor in Palau. Mita (2010) also offers an insight on contemporary Chinese and Taiwanese activities in Palau, and the disinterest of the general public in the political competition of Taiwan and the PRC.

Harwitt (2000) describes Taiwan's interest in small nations in the Pacific. He sees Taiwan's foreign aid as the key to winning diplomatic allies. He focuses on the case of Palau, back then a newly established independent state. He describes the history of establishing relations between these two nations. He concludes his article by an assessment of the economic ties between Taiwan and Palau as of 2000, not even one year after Palau extended official recognition to Taiwan. "Taiwan's motivation lies in improving its own standing in the world, rather than in advancing the interests of small nations." (Harwit, 2000) This paper extends the research to this day, thirteen years later.

¹⁰ Taylor, "Taiwan's Foreign Policy and Africa," p. 136.

Table 3. Hypotheses.

Hypotheses	Strengths	Weaknesses
H1 Political ideology had little impact on the alliance formation between Taiwan and Palau.	Taiwan and Palau are easily comparable due to their ideological similarity.	It is difficult to measure the impact of ideology.
H2 Foreign aid is a powerful instrument of alliance between Taiwan and Palau.	Official foreign aid is measurable (data are available).	The share of eventual bribes preceding investment or other financial support is unknown.
H3 Dollar diplomacy does not attract reliable allies. (Palau is not a reliable ally).	Official foreign aid and investment projects are measurable (data are available).	The time scope of this analysis is too short for an accurate evaluation of the reliability of Palau as an ally.

Further use and relevance of the studied literature on alliance creation and alliance motives are addresses in the following part of this paper.

Hypotheses

Subsequently, hypotheses describing their strengths and weaknesses (Table 3) are laid out, as a basis for testing of the research questions further described in the first part of this essay. Is the Taiwan-Palau alliance based on political ideology or on foreign aid and the so-called “dollar diplomacy”? Is Palau a reliable ally for Taiwan? Here, we also compare the hypotheses to some similar hypotheses and findings of other scholars mentioned in the relevant literature review.

First, political ideology as a motive of alliance is addressed. Is it a strong motive? I claim that political ideology had little impact on the alliance formation between Taiwan and Palau. It was not a powerful motive for alignment in the case of Taiwan and Palau, even though ideology plays a certain role in Taiwan’s relationship with its allies in general. Political ideology is often used as a guiding principle for Taiwan to try to convince small newly established countries to align with Taiwan, a small democratic nation, instead of the PRC, a big socialist nation.

Taiwan and the PRC are constantly competing for diplomatic allies, with the PRC intending to isolate Taiwan. Between these two countries, the PRC and Taiwan, there are very distinct and sharp differences in their ideological views. Thus, if Palau had to make a choice based entirely on political ideology, it would certainly choose Taiwan, because both countries are small multi-party democracies. However, it is argued that this is not the cause of their alignment. There are other motives that made Palau choose Taiwan over the PRC, which are discussed subsequently.

The hypothesis that political ideology has little or no impact on the relationship of Taiwan and Palau, however, faces a huge weakness, the difficulty of measuring the impact of ideology. Because of this, other authors who

have researched impacts of ideology on alliance formation were studied.

Walt (1990) examines the alliances formation in the Middle East during the Cold War. Among many other hypotheses, he analyzes the impact of ideological solidarity on the alliance formation. By testing his hypothesis of how powerful this tendency is, he comes to a conclusion that there is only a very modest association between ideological solidarity and alignment. Thus, ideology is not a reliable determinant. In this study, the same conclusion was expected, even though the scope of his research was different. He tested his hypothesis on states in the Middle East during the Cold war, whereas this study looked into the relation of only two states in Asia-Pacific in the last twelve years. Walt faced the same difficulty, not knowing how to measure ideology. There are three reasons for this. First, a certain ideology can be explained in many ways and means different things to different people. Second, and this is the case of Taiwan in its relation to Palau, statesmen often exaggerate the share of importance of a certain ideology in their mutual relationship (Taiwan is always highlighting its dissimilarity with the PRC and thus commonalities with, in this case, Palau). Third and last, the impression that a certain alliance was a product of ideological similarity is often misleading and alliance was actually caused by other motives (Walt, 1980).

Is foreign aid, in contrast to political ideology, a more powerful cause of alignment, especially under the very unusual circumstances of Taiwan’s position in international relations? By foreign aid I mean Taiwan’s foreign aid towards Palau. According to Taiwan’s government, Taiwan’s foreign aid in general encompasses: technical assistance and capacity building, loans, guarantees, financial donations, gifts in kind, dispatch of personnel, development strategy consultations, and other feasible methods.¹¹ Investment and business related issues are not included in foreign aid, even though very often they have been encouraged

¹¹ The ROC International Cooperation and Development Act of 18 May 2010

or even backed by the government. The same is true, in general, of the NGO work – it is encouraged by the Taiwanese government and even institutionalized under the Ministry of Foreign Affairs NGO Affairs Committee which officially supports Taiwanese NGOs financially. This paper focuses, however, only on the first two, foreign aid and investment and business related issues encouraged by the Taiwanese government.

This official foreign aid is a measurable variable since official data are published. van Fossen (2007) lays out some concrete numbers that help understand the financial background of alliance shaping and the decision making of many countries in Oceania. I claim that Palau is no exception and has recognized Taiwan as its official diplomatic ally due to substantial financial down payments.

In the case of investment, it cannot be known whether some bribes, unofficial gifts, or other means of financial support did not precede an investment agreement between the donor and the recipient, the former being Taiwan and the latter Palau. The eventual amounts of such bribes are not known and are difficult to estimate. For obvious reasons, these are not published and thus are unknown to the public. Supposedly, if bribes precede investment agreements, than this second hypothesis of mine is biased because the strength of financial aid and investment as a cause of alignment cannot be seen clearly and measured precisely.

This second hypothesis is in sharp contrast with Walt's (1990) hypothesis and arguments about aid. According to Walt, even though foreign aid has been a popular foreign policy instrument (in the Middle East), aid plays a little role in the alliance choice of states. He found testing his hypothesis difficult due to unreliable data on arms sales in the Middle East. In the case of Taiwan and Palau, if we replace in the previous sentence "arms sales" by "investment" we get to the same flaw in obtaining accurate evidence, especially since we know that every big investment is preceded by some kind of lobbying and negotiations (Walt, 1990).

The third and last hypothesis in this research is a more general one (can be applied not only to Palau but also to other countries that support Taiwan): Dollar diplomacy does not attract reliable allies. And thus, Palau is not a reliable ally. Is that true?

The term "dollar diplomacy" is understood in this paper as a mixture of official foreign aid, the work of non-governmental organizations (NGOs), and the quasi-private industry. However, this paper focuses only on the first and the last one, Taiwanese foreign aid and investment in Palau and other business related issues encouraged by the Taiwanese government, because these are directly related to "dollar diplomacy."

Palau has been Taiwan's ally for only a bit over twelve years. This is a very short period of time and makes it difficult to estimate the real reliability of the country. It is hard to predict how Palau would act in case of some

temptation or threat from the part of the PRC. Would it act just like most of the countries in Oceania that do not hesitate switching recognition from Taiwan to the PRC or the other way around in order to gain financial support from both?

However, twelve years of steady alignment is better than the time accounts of some of the other allies of Taiwan that have been switching diplomatic relations every few years, back and forth, between Taiwan and the PRC, according to which government provided more financial resources at that time.

Walt's (1990) study of alliances does not support the claim that foreign aid enables wealthy states to attract reliable allies by offering generous payments. Even though he examined his hypotheses on states in the Middle East during the Cold War, his findings seem to be generally true and can be applied to the current Taiwan-PRC rivalry in the Asia-Pacific region (just as the US and the USSR were competing against each other in the Middle East during the Cold War). Patrons and clients adjust the level of support in response of changing circumstances. His observations confirm that even rather generous levels of foreign aid failed to create effective alliances in the Middle East. Is this also the case of Taiwan and Palau, Taiwan being the wealthy patron and Palau the unreliable client?

An overall comparison of all three of my hypotheses with the hypotheses of the studied literature on alliances is laid out in a comprehensive overview in Table 4.

Argument

This paper analyzes the impact of political ideology and financial aid on alliance formation between Taiwan and Palau, as well as the quality of this alliance. Once the nature of this alliance is clear, strategies for Taiwan's foreign policy can be suggested. Is political ideology the main motive? Then Taiwan should focus on strengthening their mutual friendship based on their common principles, focus on culture, culture exchanges, and other projects based on common interest. Or is financial aid the more powerful instrument? Then Taiwan should allocate funds wisely and invest in projects that create substantial links between the two countries, and enable future cooperation and a common interest in their bilateral relation. Is this a durable alliance or is Taiwan just renting an ally?

How important is political ideology? And by political ideology in the case of Taiwan and Palau, it means the commonalities of their political and also geopolitical setting. Both countries are small islands/archipelagos (in contrast to the big size of the PRC), and both are multi-party democracies (in contrast to the PRC, which is single-party socialist republic). Here, it is argued that the impact of political ideology on alliance formation between these two countries is negligible or even irrelevant at all.

Table 4: Hypotheses comparison.

	Kristina Kironska's hypotheses		Stephen Walt's hypotheses
H1	Ideology had little impact on the alliance formation between Taiwan and Palau.	=	Ideology is not a reliable determinant of alliance formation.
H2	Foreign aid is a powerful instrument of alliance between Taiwan and Palau.	≠	Foreign aid plays a little role in the alliance choice of states
H3	Dollar diplomacy does not attract reliable allies. (Palau is not a reliable ally).	=	Foreign aid does not enable wealthy states to attract reliable allies.

In this research, it is demonstrated that, in contrast to Walt's (1990) findings in the Middle East, foreign aid is a powerful instrument of alliance between Taiwan and Palau. The official diplomatic alliance between Taiwan and Palau was mainly created because of and through the use of foreign aid. Palau chose to align with Taiwan in order to obtain financial assistance. Palau is receiving substantial economic assistance from the US with which it is in a Free Association (in return for US military rights in the region until 2044), but Palau has to think of its future and secure additional funds. Palau chose Taiwan over the PRC because Taiwan seemed a more interesting investor offering more money, foreign aid.

The main argument against the extensive use of foreign aid in relation to diplomatic allies (or possible future allies), and the case of Taiwan can be seen as extensive, is that it can be criticized as "dollar diplomacy," a term several times mentioned in this paper. We could call it also "money for friends" in the case of Taiwan. Even though, this all sounds very "friendly," such funds usually have no substantial links or common interests in bilateral relations. And this is directly linked with the third hypothesis tested in this essay.

This research also attempt to confirm that dollar diplomacy does not attract reliable allies, and thus, Palau is not a reliable ally. Assessed here is the nature of the Taiwan-Palau alliance, and several minor issues that occurred in the short history of their alliance are focused on. Have there been temptations for Palau from the side of the PRC? How did Palau react? Did it consider switching recognition to the PRC?

Here, the argument is the same as Walt (1990), "even rather generous levels of foreign aid fail to create effective alliances." Walt's observations in the Middle East confirmed his views. Is this also the case of Taiwan and Palau, Taiwan being the wealthy patron and Palau the unreliable client? I argue it is.

METHODOLOGY

This research is designed to provide an overview of the historical development of the Taiwan-Palau alliance, an assessment of the nature of this alliance, and future

prospects for maintaining this alliance. Therefore, by the elaboration of this paper, the historical method of reviewing secondary sources and media reports together with the analytical-synthetic methodology is applied. The diplomatic history of Taiwan-Palau relations from the 1980s to the present day is used as the principal historical evidence. Evaluation of the alliance between these two countries is based on a careful reading of available historical accounts. Moreover, I examined the impact of three independent variables (political ideology, foreign aid and dollar diplomacy) on the quality of the alliance between Taiwan and Palau, hereby applying the method of comparison. I also examined the theory and the practice of alliance between Taiwan and Palau, and drew future prospects for Taiwan as for how to maintain this alliance.

Throughout this paper, alliance and alignment are used interchangeably. For the purposes of this research, an alliance is a formal diplomatic arrangement between two states, Taiwan and Palau. Although many states that are reluctant to officially recognize Taiwan and exchange diplomatic missions, they maintain economic and cultural relations (and may exchange cultural and economic offices in order to facilitate cooperation between them and their nationals). Such unofficial relations were not ignored, but this research was limited to the official diplomatic ties based on procedures defined by international law.

Also, the country names 'Taiwan' and the 'Republic of China' (ROC) were used interchangeably depending on which name fits the context more accurately. In general, the name 'Taiwan' was used throughout this research, but in cases of emphasis of some document's name or some other official matter, the name 'ROC' was preferred. As for 'China' and the 'People's Republic of China' (PRC), the name 'PRC' was used in this research, even though a reference to the name 'China' (understood as the PRC or mainland China) can be found in some as the 'two Chinas', 'one-China policy', etc.

In the beginning of this research, the historical approach was used to analyze Taiwan's official relations with all of its diplomatic allies, namely with the small island nations in Oceania. Description of why Taiwan needs official diplomatic allies was skipped, because it

has been outlined in the introduction. I then turn to the Taiwan-Palau alliance starting with a historical account of their cooperation before establishing official diplomatic ties to show the strategies that led to the official recognition. I continued with subsequent developments focusing on the economic and financial methods implied after the establishment of official diplomatic ties in 1999. In conclusion, an assessment of the current Taiwan-Palau relations was carried out, and some future prospects including suggestions for Taiwan as for how to maintain Palau its official diplomatic ally, were drawn.

FOREIGN RELATIONS OF TAIWAN (ROC)

As of 2012, Taiwan (ROC) was recognized by 22 UN member states and the Holy See (Vatican). The ROC effectively controls Taiwan and its surrounding islands.¹² Most of the countries recognizing Taiwan would probably prefer having diplomatic relations with both, the PRC and Taiwan, as the former is undeniably the factory of the world and a big player in the international affairs arena, and the latter a retainable strong economic player. Some states, for example the Solomon Islands in 1983 and Vanuatu in 2004, have recognized both, China and Taiwan, at the same time, however, they did not succeed, as the PRC is vehemently against ROC sovereignty, and the one-China policy is a requirement for any political entity wanting to establish diplomatic relations with the PRC. This means that countries establishing diplomatic relations with the PRC must break official relations with Taiwan, and vice versa. The course of the foreign relations of Taiwan is dominated by maintaining diplomatic relations with its allies, as well as unofficial relations with other countries via its *de facto* embassies/consulates (such as, the Taipei Representative Office or the Taipei Economic and Cultural Office). There are 175 such missions (and on top of that, twenty-three official embassies). In this paper, only the official ties are relevant, even though the importance of the unofficial relations between Taiwan and other countries was not ignored, they certainly play an important role not only in trade related issues.

Taiwan and the PRC began competing since before 1971 to see who could win the greater number of diplomatic allies. Cross-strait relations cooled to the freezing point during the eight years under the Chen Shui-bian administration in Taiwan, and the Taiwanese government found itself forced to increase its foreign aid budget. As a result, Taiwan gained three new diplomatic allies while losing nine other. The intensity of the cross-

strait competition made potentially friendly countries cautious when interacting with Taiwan.¹³

Taiwan's quest for recognition has been particularly oriented towards newly established small and/or poor countries where it is most likely to succeed. However, some of these countries have blatantly played off the two Chinas in order to gain more profit. They used their position as a member of the UN to gain financial support from both Taiwan and the PRC by switching recognition from one to the other under the one-China policy. For example Nauru, Taiwan's long-time ally (since 1980) signed an agreement to establish diplomatic relations with the PRC in July 2002, accepting 130 million USD from the PRC for this action. In response, Taiwan severed diplomatic relations with Nauru two days later. Nauru later re-established links with Taiwan in May 2005, and diplomatic ties with the PRC were officially severed seventeen days later.

Even though Taiwan tries to dress in a guise of a humanitarian friendly country to many least developed countries in the world (because of its own experience, the "Taiwan miracle" – developing from a poor and economically dependent nation in the 1960s to one of the "Four Asian Tigers" by the end of the millennium), in the end it only pursues its own interests and, not always, even forgets about its own principles and values.

An interesting example of this is the "tractor scandal" in the Gambia where Taiwanese aid was used by the local leader to bolster his position and promote his own interest in the region on the expenses of the Taiwanese government. As part of the aid program, Taiwan donated thirty-nine tractors to Gambia in 2010. President Yahya Jammeh provided these to farmers without mentioning who actually paid for these tractors. The same happened when Taiwan brought one hundred doctors from Cuba to the Gambia as part of its foreign aid towards the Gambia. Even though this was humiliating for Taiwan, Taiwan representatives in the country were silent (Taylor, 2002:129).

Taiwan seems to tolerate behavior that normally would be sanctioned when it comes to its diplomatic allies. Taiwan tries to maintain allies at every cost, because formal recognition (by diplomatic allies) is one of the features of sovereignty of a state.

THE TAIWAN-PALAU ALLIANCE

Japan and the USA, both former colonial powers in Palau, have played the most important roles in Palau's development. Taiwan started influencing Palau in the late 1970s, when it started regarding Palau as a major potential tourist attraction and investment place. Interest from Taiwanese investors started in the 1980s with Palau's independence on the horizon, and the tourism in

¹² Taiwan's islands: Pescadores islands; Kinmen islands; Matsu islands; South China Sea islands - a part of the Nansha Islands (Spratly), Tungsha islands (Pratas), Hsisha islands (Paracel), Chungsha islands (Macclesfield Bank), and Diaoyutai islands). However, many of these islands are under dispute with other countries in the region.

¹³ *Long-term reforms*, Jan 12th 2013, Office of the President of the Republic of China (Taiwan) – Report to the People.

Palau starting to grow. In the 1990s, Taiwanese visitors have become the major part of Palau's tourist industry.

The early discussions were facilitated by Palau's rather liberal policy of allowing Taiwan citizens to obtain visas upon entry to the country. This made Palau one of the few areas in the world that citizens of Taiwan could visit while avoiding the time-consuming process of approaching a foreign representative's offices and waiting for a permission to enter (Harwit, 2000:470). This is not the only reason why Palau appealed to Taiwanese tourists. In addition to receiving visas on arrival, the flights to Palau were relatively short (3 to 4 hours) and not very expensive.¹⁴ The growing number of Taiwanese tourists helped to establish a special relationship between these two countries. One of the problems in attracting even more Taiwanese tourists to Palau was the shortage of comfortable hotels.

Taiwanese, who saw the rising potential of Palau, invested in the medium standard Palau Hotel which cost 1 million USD to build. Later, other projects followed, but the problem was that only Palauan citizens could own land in the republic. Foreigners could only lease land for periods up to fifty years (Harwit, 2000:469). In 1995, Dr. David Chen, a representative of the Taiwanese Kuomintang's Central Investment Holdings Company discussed with Alan Seid, a representative of the Palau government, the construction of a new world-class hotel. They reached an agreement to build the Palasia Hotel with joint-venture ownership. The Taiwanese side held 80% ownership and 20% went to their Palauan partners. The hotel was built on Seid's land in Koror to avoid the problems associated with property purchased by foreigners. The six-floor Palasia Hotel, the tallest building in Palau at that time, opened in August 1998 (Harwit, 2002:473). The same company also invested in a farm in order to guarantee a stable food supply for the hotel's guests (which were mainly Taiwanese).

From the 1990s to date, there were many investments flowing into the country from Taiwan, in many different ways. In 1994, the independence ceremony of the Republic of Palau on October 1st was attended by Taiwanese delegates and this visit was followed by the creation of an agricultural project, which had support from the Taiwanese government. In October 1995, a newly organized Taiwan-Palau Cultural, Economic, and Trade Interchange Association donated 50,000 USD to fund Palau's independence anniversary celebrations. In 1998, Taiwan funded another luxury real-estate project near Koror, the 50 million USD Hung Kuo Resort (much bigger than Palasia). In 2002, the Papago International Resort,

another Taiwan-funded project, was completed.¹⁵ In 2009, the government of Taiwan granted 2.4 million USD for a solar project which is supposed to reduce energy consumption in the Ministry of Health 10 to 12% daily and to serve as a covered parking structure.¹⁶ In 2011, the Taiwan Stimulus Funds funded several projects in the area of agriculture, mariculture and the environment in the amount of 10 million USD. Other Taiwan-invested projects include ROC-Funded Infrastructure Projects for the development of the road system, and the Taiwanese Ever Fortune Development Company's two water system projects (Harwit, 2000:473-474).

In the late 1990s, cultivating good ties by economic manipulating was beginning to bear diplomatic fruits, but Palau had long avoided recognizing either Taiwan or the PRC.¹⁷ Finally, however, on 30 December 1999, Palau extended formal diplomatic ties to Taiwan, and became, at that time, Taiwan's 29th ally. Over the years, Palau has been a supporter of Taiwan's efforts to participate in the UN (mainly in the UN Framework Convention on Climate Change), the World Health Organization, the Pacific Islands Forum, and other international organizations (for example the International Civil Aviation Organization).

President Tommy Remengesau, Jr. (Appendix 2), who was sworn in as President of Palau in January 2001, re-elected in 2004, and in 2013, visited Taiwan in 2000, 2002, 2004 and 2007. He has been supportive of Taiwan. In 2001, on the fifty-sixth session of the UN General Assembly in 2001, he urged the world body to accept Taiwan as a member of the UN (Shuster, 2003). In 2002, he publicly supported Taiwan's membership in the WHO (Schuster, 2012:167). In 2007, Taiwan's President Chen Shui-bian said at a State Banquet in Honor of Palau President Tommy Remengesau: "Since the establishment of diplomatic relations between our two nations in 1999, bilateral cooperative projects have proceeded smoothly and we have seen fruit borne in the areas such as agriculture, medical care, fisheries, education, culture, tourism, and personnel exchange. The Palau Culture Center, Palau Museum and other public infrastructure projects that Taiwan has assisted Palau in constructing have been completed and opened for use. Moreover, last October, the construction of Palau's new capitol complex in Melekeok State, which Taiwan also extended assistance for, was completed. The complex is a symbol of the close and cordial relations enjoyed by Palau and Taiwan, and both countries will, based on the existing foundation, continue to work together to narrow the "digital divide" and strengthen cooperation in

¹⁴ The flights were served by Far East Air Transport, a Taiwanese airline. It does not offer flights to Palau anymore. Currently, Palau airways and China Airlines offer Taipei-Koror-Taipei flights. Return tickets are quite pricy (around 25000 NTD) and better travel deals, packages including transportation and accommodation, can be booked through travel agencies (around 28000 NTD).

¹⁵ Wali M. Osmans, *An Update of the Economy of Palau*, 2004.

¹⁶ *Ministry of Health Solar Project*, Palau's Information Portal on Biodiversity and the Environment.

¹⁷ Palau got 500,000 USD from the PRC for the "Micro Games" (athletic competition) and later, in 1999, the PRC donated again 400,000 USD to Palau for the South Pacific Forum, that took place in Palau. However, for tourist purposes, the PRC was less useful, as fewer than thousand citizens visit Palau each year.

improving medical care.”¹⁸ Also, the 2008-elected President Johnson Toribiong (Appendix 2) confirmed his predecessor's (and successor's at the same time) policy towards Taiwan. He said that a shift in relations with Taiwan or the PRC “would undermine Palau's integrity as a reliable and trustworthy ally in the international community.”¹⁹ He said that from Palau's experience as a small nation, he supported Taiwan's aspiration to be recognized as a sovereign nation and to be a member of the UN.

However, in the end of the 1990s, a threat to the Taiwan-Palau alliance emerged in the form of the Taiwan tourism to Palau declining. It declined due four factors. First, the loss of value of the NTD against the USD made Palau more expensive for Taiwanese visitors (Palau uses USD as its national currency). (Harwit, 2002:476) Second, alternative travel destinations such as Thailand and the Philippines are becoming more and more popular among Taiwanese. Third, criminality in the streets of Koror concern potential tourists. Fourth, the Palau government imposed taxes for the environment protection (30 USD) and for departure (20 USD). These four reasons make travelling to Palau less attractive and could have some impact on the alliance since tourism was the founding stone of the alliance between Taiwan and Palau.

CONCLUSION

Due to political animosity and diplomatic competition across the Taiwan Strait, Taiwan tries to maintain allies at every cost. Formal recognition by its diplomatic allies is important because it is regarded as one of the features of sovereignty.

Palau chose to align with Taiwan in order to obtain financial assistance. Even though, Palau is receiving substantial economic assistance from the United States with which it is in a Free Association (in return for United States military rights in the region until 2044), the tiny island state has to think of its future and secure additional funds. Palau chose Taiwan over the PRC because Taiwan seemed a more interesting investor offering more money, foreign aid and investment. This move from the side of Palau was opposed by the United States, with which Palau is in free association. “Palau, which is geographically closer to Taiwan than any of its other diplomatic allies, also enjoys a much higher level of private sector-investment and people-to-people contracts (primarily through heavy and growing Taiwanese tourist flows to the archipelago).” (van Fossen, 2007).

¹⁸ *President Chen's Remarks at a State Banquet in Honor of Palau President Tommy Remengesau*, Jan 18th 2007, Office of the President of the Republic of China (Taiwan) – News Releases.

¹⁹ *Palau's President-elect, Johnson Toribiong, says he will continue Palau's diplomatic relations with Taiwan*, ABC Radio Australia, 18 November 2008.

In this research, the impact of political ideology and financial aid on alliance formation between Taiwan and Palau is analyzed, as well as the quality of this alliance. Here, it is demonstrated that political ideology is a weak motive of alliance between Taiwan and Palau, even though both countries are small democracies different from the PRC, a big socialist nation. A much stronger motive is Taiwan's financial aid towards Palau – as can be seen from the history of the Taiwan-Palau relationship. Historical evidence shows that the official diplomatic alliance between Taiwan and Palau was mainly created because of and through the use of financial (at first tourism related) flows from Taiwan to Palau. This economic manipulating indeed bore fruits, because since the diplomatic recognition in 1999, Palau has supported Taiwan's efforts to participate in several international organizations and President Remengesau, Jr., as well as President Toribiong, requested that the world body also include Taiwan in UN activities (Schuster, 2012:163-170). So, the Taiwan-Palau ties are in no way a one-way street, and Palau is, actually, one of Taiwan's greatest supporters, doing all it can to help secure an expanded role for the country in several international bodies (such as the United Nations or the World Health Organization).

The only problem with “money for friends” flowing from Taiwan to Palau is that such funds usually have no substantial links or common interests in bilateral relations; one party is interested in the money and the other in certain services in exchange for the money. I argue that dollar diplomacy does not attract reliable allies – as can be observed in some cases where despite Taiwan's support and remarkable investment, some countries simply switched their recognition from Taiwan to the PRC.²⁰ This might be the case of Palau in future too, even though right now Palau has diplomatic relations with Taiwan, not the PRC. With the PRC's growing influence in the region and Taiwan's tourism declining in Palau things might change drastically in the future. If the PRC one day just comes and offers more money to the tiny island state, Palau might just switch recognition like the other states did before. Taiwan is the wealthy patron and Palau the unreliable client.

The alliance remains for now the best overall foreign policy option for both countries. However, to maintain this alliance in the future, Taiwan will need to continue relying on the “dollar diplomacy” to pursue its diplomatic goals in the years to come.

REFERENCES

- About.com Geography. (<http://geography.about.com/cs/countries/a/numbercountries.htm>).
 Beeson M, 2004. Contemporary Southeast Asia Regional Dynamics, National Differences. Palgrave Macmillan, Basingstoke.

²⁰ For example Tonga, in October 1998 switched recognition from Taiwan to the PRC.

- Chen J, 2002. Foreign policy of the new Taiwan: pragmatic diplomacy in Southeast Asia. Edgar Elgar Publishing Limited, UK.
- Cheng TY, 1994. Foreign Aid in ROC Diplomacy. In: Contemporary China and the Changing International Community. Lin B and Meyers JT (Eds.), University of South Carolina Press, Columbia, South Carolina.
- CIA The World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/>).
- Crocombe R, 2007. Pacific Gains and Losses from the China-Taiwan Feud. In: Asia in the Pacific Islands: Replacing the West. IPS Publications: University of the South Pacific.
- Elaine Hou, "Taiwan shares foreign aid experience at conference," *Focus Taiwan News Channel*, 25 September 2012. Retrieved November 19, 2012 from http://focustaiwan.tw/ShowNews/WebNews_Detail.aspx?Type=aTPS&ID=201209250007.
- Harwit E, 2000. Taiwan's foreign economic relations with developing nations: A case study of its ties with Palau. *The Contemp Pac*, 12(2):465-479.
- International Cooperation and Development Act of 18 May 2010 (promulgated on June 15, 2010, through Presidential Decree No. Hua-Zong-I-Yi-09900146501).
- International Cooperation and Development Report, Ministry of Foreign Affairs Republic of China, 3 January 2012.
- MapResources.com (<http://z.about.com/d/geography/1/0/C/C/palau3.jpg>).
- "Ministry of Health Solar Project," *Palau's Information Portal on Biodiversity and the Environment*, 7 February 2012. Retrieved on 29 December 2012 from <http://palau.chm-cbd.net/events/ministry-health-solar-project/>.
- Mita T, 2010. Changing Attitudes and the two Chinas in the Republic of Palau. In: China and the Oceania. Reshaping the Pacific? Wesley-Smith T and Porter EA (Eds.), Berghahn Books.
- Office of the President of the Republic of China (Taiwan).
- Osmans Wali. An Update of the Economy of Palau, 2004. U.S. Department of Interior, OIA Economic Reports & Updates. Retrieved on 29 December 2012 from <http://www.doi.gov/archive/oia/Osman/Osmanreports/A%20Brief%20Update%20on%20Palau.pdf>.
- Owen J, 1994. How Liberalism Produces Democratic Peace. *Int Sec*, 19(2):87-125.
- "Palau will stay with Taiwan: President Toribiong." *Islands Business*, 17 August 2010. Retrieved October 22, 2012 from http://www.islandsbusiness.com/news/index_dynamic/containerNameToReplace=MiddleMiddle/focusModuleID=130/focusContentID=20579/tableName=mediaRelease/overrideSkinName=newsArticle-full.tpl?PHPSESSID=260c4217548a29d9205252bc2eaac483.
- "Palau's President-elect, Johnson Toribiong, says he will continue Palau's diplomatic relations with Taiwan," *ABC Radio Australia*, 18 November 2008. Retrieved 29 December of 2012 from <http://www.radioaustralia.net.au/news/stories/200811/s2421144.htm+new+palauan+president+2008&cd=1&hl=de&ct=clnk>.
- "President Chen's Remarks at a State Banquet in Honor of Palau President Tommy Remengesau, Jan 18th 2007," *Office of the President – News Releases*. Retrieved on November 2009 from http://www.president.gov.tw/en/prog/news_release/document_content.php?id=1105499351&pre_id=1105499351&menu_id=&g_category_number=145&category_number_2=145&layer=&sub_category.
- Rachel Chan, "Ma praises robust ROC-Palau relations," *Taiwan Today*, 23 August 2012. Retrieved from <http://taiwantoday.tw/ct.asp?xItem=195108&ctNode=445>.
- "ROC-Palau ties: A two-way street," *Taiwan Today*, 6 March 2011. Retrieved October 22, 2012 from <http://taiwantoday.tw/ct.asp?xItem=166574&ctNode=413>.
- Schuster, Donald, 2012. Micronesia in review: Issues and events, 1 July 2010 – 30 June 2011, Republic of Palau. *The Contemp Pac*, 24(1):156-163.
- Shuster RD, 2003. Republic of Palau. *The Contemp Pac*, 17(1):173-183.
- Taylor I, 2002. Taiwan's foreign policy and Africa: The limitations of dollar diplomacy. *J Contemp Chin*, 11(30):125-140.
- van Fossen A, 2007. The struggle for recognition: Diplomatic competition between China and Taiwan in Oceania. *J Chin Pol Sci*, 12(2):125-146.
- Walt MS, 1990. *The Origins of Alliances*. Cornell University Press: Ithaca and London.
- Waltz K, 1979. *Theory of International Relations*. Addison-Wesley Publishing Company Inc, Philippines.
- White Paper on Foreign Aid Policy – Partnerships for Progress and Sustainable Development, Ministry of Foreign Affairs Republic of China, May 2009.
- William Ide, "Palau becomes Taiwan's 29th ally," *Taipei Times*, 13 December 1999. Retrieved October 22, 2012 from <http://www.taipeitimes.com/News/front/archives/1999/12/31/0000017748>.
- Winkler, Sigrid. "Taiwan's Dilemma: To Be or Not To Be," *Brookings*. June 2012. Retrieved May 19, 2013 from <http://www.brookings.edu/research/opinions/2012/06/20-taiwan-un-winkler>.
- "Yang: China not factor in Taiwan-Palau Relations," *The China Post*, 9 April 2010. Retrieved October 22, 2012 from <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2010/04/09/251774/Yang-China.htm>.

Appendix 1

Palau – Basic Information

Country name: Republic of Palau (Beluu er a Belau), former: Trust Territory of the Pacific Islands, Palau District

Area: 459 sq km (slightly more than 2.5 times the size of Washington, DC)

Natural resources: forests, minerals (especially gold), marine products, deep-seabed minerals

Ethnic groups: Palauan (Micronesian with Malayan and Melanesian admixtures) 69.9%, Filipino 15.3%, Chinese 4.9%, other Asian 2.4%, white 1.9%, Carolinian 1.4%, other Micronesian 1.1%, other or unspecified 3.2% (2000 census)

Languages: Palauan (official on most islands) 64.7%, Filipino 13.5%, English (official) 9.4%, Chinese 5.7%, Carolinian 1.5%, Japanese 1.5%, other Asian 2.3%, other languages 1.5% (2000 census)

Religions: Roman Catholic 41.6%, Protestant 23.3%, Modekngei 8.8% (indigenous to Palau), Seventh-Day Adventist 5.3%, Jehovah's Witnesses 0.9%, Mormon 0.6%, other 3.1%, unspecified or none 16.4% (2000 census)

Population: 21,032 (July 2012 est.)

Capital: Melekeok

Constitution: 1 January 1981

Government type: constitutional government in free association with the US

Executive branch: President Johnson TORIBIONG (since 15 January 2009); president and vice president elected on separate tickets by popular vote for four-year terms (eligible for a second term); election last held on 6 November 2012

Legislative branch: bicameral National Congress consists of the Senate (9 seats; members elected by popular vote on a population basis to serve four-year terms) and the House of Delegates (16 seats; members elected by popular vote to serve four-year terms)

Judicial branch: Supreme Court; Court of Common Pleas; Land Court

International organization participation: ACP, ADB, AOSIS, FAO, IAEA, IBRD, ICAO, ICRM, IDA, IFC, IFRCs, IMF, IMO, IMSO, IOC, IPU, MIGA, OPCW, PIF, SPC, UN, UNAMID, UNCTAD, UNESCO, WHO

International disputes: maritime delineation negotiations with Philippines and Indonesia

GDP (purchase power parity): 164 million USD (2008 est.)

GDP – real growth rate: 5.5% (2005 est.)

GDP –per capita (PPP): 8,100 USD (2008 est.)

GDP - composition by sector: agriculture: 3.2%; industry: 20%, services: 76.8% (2009 est.)

Unemployment rate: 4.2% (2005 est.)

Industries: tourism, craft items (from shell, wood, pearls), construction, garment

Exports: 12.3 million USD (2004 est.) (shellfish, tuna, copra, garments)

Imports: 113.4 million USD (2004 est.) (machinery and equipment, fuels, metals; foodstuffs)

Source: CIA –The World Factbook - Palau (Retrieved November 10, 2012 from <http://geography.about.com/cs/countries/a/numbercountries.htm>)

Appendix 2

Presidents of Palau

No.	Incumbent	Tenure	
		Took Office	Left Office
1	Haruo Remeliik	2 March 1981	30 June 1985
	Thomas Remengesau, Sr. (acting)	30 June 1985	2 July 1985
2	Alfonso Oiterong	2 July 1985	25 October 1985
3	Lazarus Salii	25 October 1985	20 August 1988
	Thomas Remengesau, Sr. (acting)	20 August 1988	1 January 1989
4	Ngiratkel Etpison	1 January 1989	1 January 1993
5	Kuniwo Nakamura	1 January 1993	1 January 2001
6	Thomas Remengesau, Jr.	1 January 2001	15 January 2009
7	Johnson Toribiong	15 January 2009	17 January 2013
(6)	Thomas Remengesau, Jr.	17 January 2013	Present

Source: Wikipedia – President of Palau (Retrieved 15 May 2013 from http://en.wikipedia.org/wiki/President_of_Palau)