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Master's Thesis

**Ma Ying-jeou's Foreign Aid Policy:
Two-Level Game Analysis**

February 2017

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Ma Ying-jeou's Foreign Aid Policy: Two-Level Game Analysis

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Abstract

Ma Ying-jeou's Foreign Aid Policy: Two-Level Game Analysis

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Under the special Cross-Strait dispute context, foreign aid policy in Taiwan has become a necessary means for the government to exchange for diplomatic support from the recipient countries and to establish its legitimacy in the international society. This practice has made the country's aid long attached with the negative image of "dollar diplomacy" or "checkbook diplomacy." Since Ma Ying-jeou came to presidency in 2008, his different policy choice towards China has done several changes to the Taiwanese foreign aid.

This paper draws from the theoretical framework of Two-Level Game and examines Ma Ying-jeou's foreign aid policy making process through both international and domestic levels of bargaining. It argues that the two levels coincide on the opinion of an improved foreign aid image while disagree on the foreign aid budget. As a consequence, Ma Ying-jeou's foreign aid policy presents a different practice and outcome in the process of balancing these two level of constraints.

Keywords: foreign aid policy, Taiwan, Ma Ying-jeou, Two-Level Game, Cross-Strait relations

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List of Abbreviations

DAC	Development Assistance Committee
DPP	Democratic Progressive Party
ICDF	International Cooperation Development Fund
KMT	Kuomintang
MDGs	Millennium Development Goals
MOFA	Ministry of Foreign Affairs
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PRC	People's Republic of China
ROC	Republic of China
UN	United Nations

I. Introduction

1.1. Research Motivation

Many would certainly believe that Taiwan is not a normal state in terms of its political status in the international community. It stays as a *de facto* sovereign state with properly-functioned government and an independent constitution, but it is not recognized by many of other states and the United Nations, even though it used to be the Organization's founding member and remained seated for nearly 26 years. The reason for this denial is resulted from its dispute with the People's Republic of China (hereinafter referred to as PRC or China) over the legitimacy of representing the only Chinese government. This political reality has made Taiwan's foreign policy an inseparable part of its Cross-Strait policy. Leaderships in Taiwan have long struggled in striking a balance between the two.

Today, there are 21 countries in the world that support Taiwan's legitimacy.¹ The reason behind this has a lot to do with the Taiwanese government's use of foreign aid to exchange for diplomatic support ever since the 1960s. This nature has made Taiwan a special case for foreign aid policy studies. Several reasons make it relevant to the research topic. First of all, unlike many other donors, motivation of Taiwan's foreign aid policy is explicit. While donors often provide foreign aid out of complicated, mixed considerations (such as political and/or economic interests), Taiwan's motive is rather simple – its foreign aid serves for the country's foreign

¹ As of December 2016, Taiwan has established official diplomatic relations with 21 countries. Accessed December 31, 2016. <http://www.mofa.gov.tw/en>

policy goal of earning diplomatic support internationally. This motive has already been proved by many previous researches in this field (Chan 1997; Lin 1999; Tubilewicz and Guilloux 2011).

Second reason of the case choice is that, because of the explicit diplomatic objective and its special relations with China, unlike many other donor countries, there is an atypical donor-recipient relationship existing between Taiwan and its diplomatic allies. Knowing that Taiwan is in urgent need of diplomatic support, the diplomatic allies are, therefore, in a superior bargaining position. They are able to manipulate the unequal relations by threatening to discontinue official recognitions if Taiwan does not accept their request. This has caused several major scandals related to corruption, bribery, and sovereignty issues.

Considering the unbalanced relationships, political leaders in Taiwan are always left in a difficult situation as to either accept the request of providing a handsome amount of foreign aid, or refuse the unreasonable request and endanger the bilateral relationships that support Taiwan in the international arena.

This situation, however, has changed since Ma Ying-jeou came to presidency. Recognizing that the main reason of Taiwan's difficult situation comes from China, Ma adopted a different foreign policy from previous governments. Unlike his predecessor Chen Shui-bian who adopted an aggressive foreign policy and continuously emphasized Taiwan's sovereignty to be separated from China, Ma Ying-jeou's strategy was to reconcile with China and enhance the bilateral relationship in all aspects. Under this intended goal, his government avoided engaging in diplomatic activities that could possibly touch upon the sensitive One-China policy and could harm the bilateral relation. His government no longer insisted

on participating in international organizations under the name of Taiwan but accepted other names that are feasible. For instance, it joined the World Health Assembly (WHA) and the International Civil Aviation Organization (ICAO) in 2009 and 2013 separately under the name “Chinese Taipei,” marking the first time that Taiwan has been included in any UN entities ever since its withdrawal from the organization in 1971.

Among all Ma Ying-jeou’s foreign policies, the one with greatest importance is that he ended the long-simmering competition for diplomatic allies with China. Previous Chen Shui-bian’s administration had actively engaged in diplomatic activities, such as frequently visiting diplomatic allies, and increasing national budget on foreign aid year after year, in an attempt to earn the allied governments’ support for Taiwan instead of China. Unlike Chen, Ma Ying-jeou proposed to stop the vicious competition with China and to reduce budget on foreign aid. His government emphasized on the responsibility to help developing countries through rightful practices. As a consequence, he successfully maintained Taiwan’s ally counts, and his foreign aid budget started to drop year by year.

This paper draws from Robert Putnam’s Two-Level Game theory in 1988 to examine how Taiwan’s foreign aid policy has been influenced under both international and domestic constraints. This theory is applicable to the Taiwanese case when it began to democratize since late 1980s. The emergence of the first opposing party, the Democratic Progressive Party (DPP), after the government lifted the long-running martial law marked a significant stage in the Taiwan society when the domestic groups began to have influence over the government’s decision making. The general public started to raise voices through the representation of political

parties as well. Thus, the theoretical framework of Two-Level Game provides a proper basis in explaining the effect of domestic factors over Taiwanese government's foreign policy making ever since 1980s.

In contrast to the explaining power of domestic factors, the theory has better applicability on Ma Ying-jeou's administration than the previous Chen Shui-bian's term when includes the international constraints onto the government policy. Chen's government cared less about international pressure and criticism and went on pursuing the "aggressive" foreign policy that created diplomatic events that damaged Taiwan's reputation internationally. The level of international constraints, therefore, has little explaining ability to Chen Shui-bian. On the contrary, Ma Ying-jeou and his government put improving Taiwan's international reputation as a priority and continuously emphasized the government's intention to follow the doctrines of international community especially in the field of development. This difference makes the Two-Level Game theory has more implications on Ma Ying-jeou's policy making than his previous terms.

1.2. Research Question

As elaborated previously, Ma Ying-jeou's presidency represents a critical juncture in Taiwan's foreign aid policy as he proposed a peaceful relationship with China. Under the circumstances, the main questions that this paper aims at addressing are: **“What are the major factors that influence Ma Ying-jeou's foreign aid policy choice? How are his policy outcomes different from the previous governments?”** Under the condition that Cross-Strait tension seemed to ease with Ma Ying-jeou's foreign policy, it is interesting to see if domestic factors become a significant variable that influences Taiwan's foreign aid policy.

1.3. Hypothesis

Drawing from the theoretical framework of Two-Level Game, this paper proposes that Taiwan's foreign aid policy making under Ma Ying-jeou can be conceptualized as a process of two-level game bargaining, balancing between the international and domestic tables. The international community urged Taiwanese government to improve its foreign aid practices that had caused several major scandals related to bribery and sovereignty intervention. In the meantime, they continuously pressured Taiwan to play a bigger role in the field of development, since it is now wealthy enough to do so. At the domestic level, the general public was overwhelmingly against the practices of dollar diplomacy and demanded the government to reduce national budget on foreign aid. Putting this bargaining process into the terms proposed by the Two-Level Game theory, this paper argues that the “win-sets” of Ma Ying-jeou's government overlap at that both levels wanted to

improve the negative image of Taiwanese aid while disagree on the size of aid. As a negotiator, Ma Ying-jeou's proposed policy, diplomatic truce, is therefore the outcome of the two-level bargaining process, where he managed to reduce negative aid practices and adjust aid budget to areas needed to satisfy the constraints at both levels.

1.4. Significance of Thesis

This paper contributes to the discussion of donor's foreign aid policy making that applies the theoretical framework of Two-Level Game. It examines not only the traditional focus on donor's motivation but also the role of contextual factors on influencing donor's policy choice. Unlike previous studies that overly emphasized on either international environment constraints or domestic politics in Taiwanese aid, this paper stress the significance on the interactions between the two variables and how negotiators and decision makers in Taiwan balance between the two constraints and adopt strategy to achieve the intended outcomes. By laying out factors determining Ma Ying-jeou's foreign aid policy making from 2008 to 2016, this paper is able to provide implications for future policy-makers when dealing with Taiwanese aid and Cross-Strait relations.

1.5. Structure of Thesis

This paper is organized as follows. It begins in Chapter II with a discussion on the two biggest approaches of studying Taiwan's foreign aid policy and examines the applicability to this paper. It then proposes the Two-Level Game theory and the

Case Study method to be the feasible analytical framework to answer the research questions. Next, the historical evolution of Taiwanese aid is introduced to capture the significance of foreign aid in the country's foreign policy and to further identify possible variables that could affect Ma Ying-jeou's policy making for later analysis. Chapter IV then draws on the theoretical framework of Two-Level Game and demonstrates Ma Ying-jeou's policy making process throughout the bargaining between the government and the international community (Level I) and the domestic constituents (Level II). This paper also discuss how Ma's foreign aid policy is different from his predecessors under the sub-sections of "International-Domestic Synergy." The paper then concludes with remarks and implications on the future Taiwanese aid in the Cross-Strait relations.

II. Analytical Framework

2.1. Previous Studies

Throughout the existing literature on Taiwan's foreign aid policy, scholarships can be generally categorized into two major approaches. One scholarship starts with the donor's perspective and studies Taiwan's motivation of providing foreign aid and choosing aid-receiving targets. The other major scholarship focuses on contextual factors and their impact on Taiwan's foreign aid policy. This section discusses these two major approaches on studying Taiwan's foreign aid policy and their applicability in answering the proposed research questions of this paper.

2.1.1. Motivation Approach

Most of the early studies on Taiwan's foreign aid focus on the motivation of providing foreign aid and consider it a means for the country to pursue power in the international relations. This development is relevant with the Cold War context. Foreign aid during the Cold War era was considered an instrument for many countries to pursue power in the international society. States provide incentives or threats to alter other states' policies in order to achieve their own foreign policy goals. Morgenthau (1962) concluded six types of aid: *humanitarian foreign aid*, *subsistence foreign aid*, *military foreign aid*, *bribery*, *prestige foreign aid*, and *foreign aid for economic development*, and concluded that, except for humanitarian aid, the other five types of aid more or less have explicit political nature (Morgenthau 1962, 301). Even humanitarian aid, he noted, could sometimes be disbursed in an

attempt to gain political influence in the recipient countries or in the international society. Sogge (2002) further categorized foreign aid into five major incentives. Firstly, *socio-political motives* that are based on national interests. For instance, United States' providing aid to Taiwan and South Korea during the Cold War era in an attempt to counter the expansion of Communism could be examples. Secondly, *mercantile motives*, such as Japan and US, for their foreign aid policies are usually intertwined with their intentions to expand overseas markets. Thirdly, some Nordic countries have strong *humanitarian and ethical motives* in providing largely untied, multilateral aid to developing countries. Fourthly, aid provided out of *compensate for losses*, such as Japan's aid-giving after World War II. Lastly, *common interest* between donors and recipients. Donors provide aid in exchange for the recipients' cooperation, such as combating international crime, terrorism, illegal immigrants, and so on.

This scholarship assumes that donor's motivation is what determines the characteristics of interactions between donor and recipient. That being said, bilateral relations on foreign aid are always initiated by donor country instead of recipient country. Donor's motivation determines the country's foreign policy goal and reflects on the distribution of its aid (Ekeh 1974). The approach has often been adopted in studying Taiwan's foreign aid policy in early stages. Literatures before 2000 generally agree that Taiwanese aid serves as a significant instrument for the country's foreign policy goal: countering diplomatic isolation that is caused by the Cross-Strait disputes. Some see aid as an effective tool to achieve foreign policy goals (Chan 1997; Lee 1993; Lin 1999; Taylor 2002) while some recognize its limitations under the circumstances of China's rising power and outweighing economic strength over Taiwan (Ko 2003; Taylor 2002).

Whether foreign aid serves as an effective diplomatic tool for Taiwan or not, several weaknesses of these studies could be pointed out. First of all, most of these studies focus primarily on the perspective of donors while neglecting the motivations of recipients that could play a role in influencing Taiwan's foreign aid policy behavior. Contrary to donor's political or diplomatic motivations, recipient's motivations are usually economic. With the increasing economic power of China, perspectives of the recipients become especially vital in understanding why some recipients would accept aid from China instead of Taiwan, or vice versa.

Second limitation of this approach is the difficulty in identifying donor's motivation if lacking supportive data. As mentioned earlier, motivations of donor's providing foreign aid are usually multi-layered, combining with both political and economic motivations. In the meantime, donors seldom explicitly tell their political intentions but use indirect approaches to achieve their political goals or emphasize on the economic impact on the development of recipients (Browne 1990). If researchers cannot find sufficient data to support the analysis of policy choice, results of adopting this approach could be limited.

Lastly, researches on Taiwan's foreign aid policy using the motivation approach usually take on the national level of analysis. They see the country as the sole actor while paying little attention to the internal factors and dynamic that could influence foreign aid policy making. Therefore, another approach that focuses on the role of contextual variables on Taiwan's foreign aid is worth discussing in the next section.

2.1.2. Contextual Approach

Teh-chang Lin (1999) in his book *A comparative study on foreign aid policy across Taiwan Strait* put forward the contextual approach as an analytical framework to compare Taiwan's and China's foreign aid policies. Lin considered foreign aid to be the output and practice of a country's foreign policy. Therefore, sufficient foreign aid data and statistics could be important indicators to analyze donor's foreign policy. Contextual approach assumes that donor's foreign aid policy and aid-giving behavior are guided by its foreign policy goals and strategies. Foreign aid policy serves as the dependent variable for analysis here. Internal and external factors as independent variables would lead to different foreign policies and further affect the nature of donor's foreign aid policy and its choice of recipients. Once the relevant variables are identified and controlled, the researchers will be able to explain donor's aid-giving behavior.

Throughout the literatures on Taiwan's foreign aid policy, the external factors have always been the major concern of scholars. These scholarships examine the interactions between Taiwan and other international actors and generally reach similar conclusions that Taiwan's foreign aid is a product of sovereignty dispute and unbalanced power distribution across the Taiwan Strait (Chan 1997; Lee 1993; Taylor 2002). That being said, external factors are what determine the characteristics of Taiwanese aid. These scholarships may be right in analyzing the early stages of Taiwan's aid policy since domestic politics were not so energetic as it is today. However, scholars pay little attention to internal factors and their possible effects on Taiwanese leaders' policy choice even after Taiwan has democratized since 1980s.

A few recent studies start to look at the role of internal factors on Taiwan's

foreign aid policy. Tubilewicz (2016), for instance, looked into the competitions among political parties and government agencies and concluded that internal factors are what shaped Taiwan's foreign aid policy, rather than the conventional Cross-Strait conflicts that scholars used to think. He further indicated that it was the state transformation process during partisan competition and formation of nationalism that influenced the various aspects of Taiwan's foreign aid-giving. This scholarship succeeded in providing a systematic review on domestic factors and their effects on Taiwan's foreign aid policy and yet, has the same problem of being narrow-sighted. By simply including internal factors while ruling out external factors, readers are not able to know how much internal factors weigh over external factors.

Concluded from the above discussions on previous studies, this paper argues that contextual approach is more applicable to this research than motivation approach, as motivation approach has several limitations in weighing too much on donor's perspective and paying less attention to domestic factors.

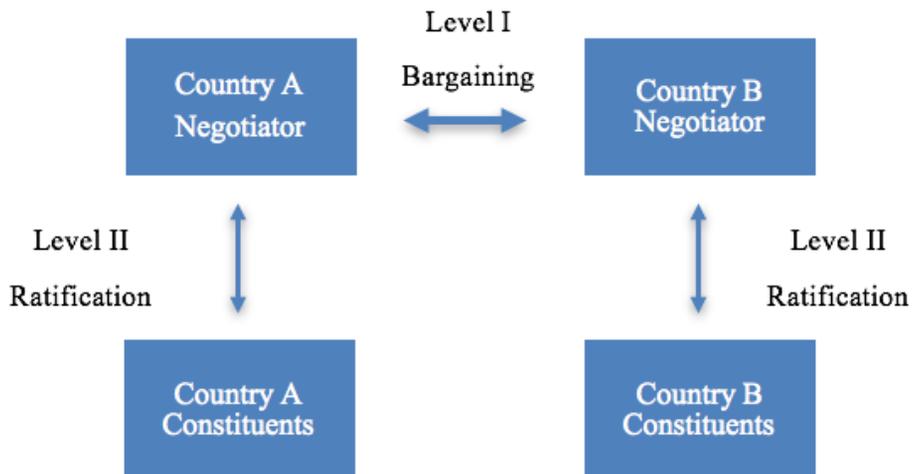
2.2. Theoretical Framework

From the previous discussions on Taiwan's foreign aid policy, this paper adopts Robert Putnam's (1988) theory of Two-Level Games as the main theoretical basis for analysis. This theory was derived from the 1980s when scholars of international relations, after long debating on whether a country's foreign policy is determined by the international system or domestic politics, started to draw a linkage between the two concerns. In the article *Diplomacy and Domestic Politics: The Logic of Two-Level Games*, Putnam put forward the idea that interactions and negotiations between countries can generally be seen as a two-level game:

At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments (Putnam 1988, 434).

In other words, a country's foreign policy making is determined by both international and domestic environments. A leader or a decision-maker must take into account both factors to satisfy actors at both levels when making his or her foreign policy. The detailed process of policy making proposed by the theory can be further explained by the following illustration.

Figure 1. Putnam's Two-Level Game theory



Source: Putnam, 1988.

Having the aforementioned concepts in mind, Putnam supposed that leaders or negotiators representing two countries meet to reach an agreement, and they already know that the agreement needs to be ratified by their respective constituents. The ratification process could be decomposed into two stages. Level I suggests the bargaining process between negotiators from the two countries at international level, and they are to reach a tentative agreement. Level II refers to the discussion process within each country between the leaders and the constituents about whether to accept the proposed agreement. In addition, negotiators of Level I are political leaders or decision-makers while the domestic constituents are usually bureaucratic agencies, interest groups, social classes, or even public opinion.

The theory suggests that the foreign policy output is the outcome of both international as well as domestic negotiations. Therefore, in order to strike a balance at both levels and reach an agreement of policy that can be ratified, the idea of “win-

set” is of great importance. Win-sets are defined by Putnam as “all possible Level I agreements that would gain the majority among the constituents (Putnam 1988, 437).” The size of win-sets determines the possibility of an agreement that can be ratified, and it is therefore important to know what affects the size of win-sets since under most circumstances, the bigger win-sets both sides have, the more likely that the win-sets are able to overlap and reach an agreement. The size of win-sets is determined by three major factors: the power distribution at Level II constituents, the political institutions at Level II, and the strategies of the Level II negotiators.

This theory is chosen as it can best describe the logic of Taiwan’s foreign aid policy, considering possible contextual factors from both external and internal environments. The two-level game theory has been used to discuss the Cross-Strait negotiations in many researches. For instance, Samuel S. G. Wu (1999) adopted the game theory to the two-level negotiations at both sides and found that Cross-Strait negotiations generally have the characteristics of unequal resource distribution, disparity in cognition, multiple agendas, two-stages, non-binding agreements, etc. He concluded that the nature of two-level game in Cross-Strait negotiations explained how domestic politics affect the negotiator’s behavior in international bargaining table and how both sides apply strategies to increase their win-sets and enhance their bargaining power. Guo and Lin (2000) applied the two-level game theory to President Lee Teng-hui’s Two-State theory and examined the rationale behind Lee’s policy choice and the timing and constraints of his proposing the theory. Guo and Lin concluded that Lee Teng-hui, as a decision-maker, had to balance between internal and external constraints rather than following his individual preferences. Chang (2002) compared the power balancing and negotiations across the Strait in different stages from three perspectives – agenda, negotiator, and

constituent – and found that the win-sets of both sides overlapped at the One-China-with-Respective-Interpretations policy instead of the extreme ends of either Taiwan-as-an-Independent-Country or One-People’s Republic China.

Therefore, from the aforementioned studies, we know that the two-level game theory is applicable to the case of Taiwan for it has the power to answer the research question of what makes Ma Ying-jeou’s foreign aid policy by decomposing his policy making process into two stages externally and internally. However, different from most of the Taiwanese foreign policy studies that lay emphasis on the impact of domestic politics on international relations than the other way around, this paper focuses on both ways. It aims at understanding how domestic constituents influence international relations and how international relations affect domestic politics in the context of Ma Ying-jeou’s foreign aid policy making.

Several actors during the bargaining process are examined in this paper. At Level I international bargaining, three major actors and their roles are discussed: international community as a whole entity, recipient countries of Taiwan’s foreign aid (namely its diplomatic allies), and the major constraint of its foreign policy – China. These three are the major foreign actors in the process of Taiwan’s foreign aid policy making. As for the Level II national level bargaining, domestic groups are the major concern. It consists of the two major political parties in Taiwan, KMT and DPP, and the general public opinion among Taiwanese people. The national level bargaining presents how political parties capture the major public opinion on foreign aid when they are either the ruling party or party in opposition.

2.3. Methodology

This paper employs an empirical case study method. Case study method, according to Arend Lijphart (1971), has the advantage for researchers to intensively examine the chosen case when the resources are limited. It also contributes to the establishment of general propositions or building theories. Several types of case study methods are distinguished by scholars, and this paper employs the typology of Interpretive Case Studies by Lijphart or Theory-guide Case Studies by Levy (2008). Lijphart argued that interpretive case studies apply a generalization to the selected case in an attempt to “throw light on the case rather than improving the generalization in any way” and considered this study method more of an applied science (Lijphart 1971, 692). Levy also pointed out that, by employing a well-developed conceptual framework, this method could focus on “theoretically specified aspects of reality” and provide better explanations to the key aspects of the chosen case (Levy 2008, 4).

By employing a simple model of two-level game, this paper examines Ma Ying-jeou’s foreign aid policy making in the international and domestic tables and finds that Ma Ying-jeou’s policy choice of a less radical foreign aid policy was the outcome of negotiations and bargaining at the two tables, where excessive foreign aid policy was no longer desirable for the general public while the international community continuously demanded for his greater contribution to the developing field.

In conducting the research, sources collected for analysis are diverse. Data of Ma Ying-jeou government’s policy making is adopted from the official statements and documents, among which the *2009 White Paper on Foreign Aid Policy* is of paramount significance to analyze the leadership’s intension and behavior. In the

meanwhile, annual reports on government's aid work issued by the International Cooperation Development Fund (ICDF), main aid agency of Taiwan, are also adopted as references. Regarding Ma's interaction with domestic constituencies, legislative records, opinion polls, and official policy statements by the presidential candidates are analyzed to understand the public opinions towards his policy.

III. Historical Evolution of “Taiwanese Aid”

3.1. From Recipient to Donor

In order to understand the rationale behind Ma Ying-jeou’s foreign aid policy, one must place it into the historical framework of how Taiwan has become what it is today, and what has been the role of foreign aid throughout its history of development. This chapter explains that gaining diplomatic recognition has been an important part of Taiwan’s foreign policy as a means to counter its isolated international status and to defend sovereignty under the context of Cross-Strait relations. Foreign aid, therefore, has become an instrument to achieve Taiwan’s foreign policy goal.

Taiwan used to be an aid recipient from the 1950s until the 1980s. Due to the broader context of cold war, especially after the outbreak of Korean War in 1950, the United States needed to increase its allies in East Asia in order to counter with the Communist forces from the Soviet Union and the PRC. Taiwan, South Korea, and Japan, therefore, were included in this containment line because of their geopolitical importance. To enhance military strength of these countries based on the US interest, it provided huge military and economic assistance during the war period. Roughly USD 100 million value of assistance was given to Taiwan every year (MOFA 2009). The assistance came in the form of military and daily commodities, as well as loans and technical assistance to help strengthen Taiwan’s military power. In the meantime, Taiwan also utilized these funds on major infrastructures for development. Although it is debatable whether assisting Taiwan’s economic development was the American interest, scholars generally agreed that without the economic assistance from the US

and many other donors at the initial stage of development, Taiwan would have not been able to achieve impressive economic development in the latter half of twentieth century (Chiang 2014; Chang and Lee 2014).²

This experience of having been an aid recipient serves as a significant part of Taiwan's foreign aid policy to other developing countries later on. The narrative of Taiwan's responsibility to "give back" what it had gained from the international community has been constantly used by the government and political leaders as a rhetoric and public diplomacy to justify Taiwan's aid giving. In fact, not only Taiwan, similar strategy has been used by other donor countries, such as South Korea, to justify the government's foreign aid-giving. By doing so, the government may be able to ease the public doubts and criticism on why the government has to help other countries while it already has many problems in its own country. Moreover, by putting forward terms such as "Taiwan experience" or "Korean experience" of development, the government also shapes a national identity that makes its people feel proud of its own development experience as to be able to help others, making its foreign aid-giving easier to be accepted.

Taiwan started to provide foreign aid to other developing countries in the 1960s as a means to earn support from the international community. Since 1949 when the KMT-led Nationalist government moved to Taiwan, both sides across the Taiwan Strait have been competing to represent "the only legitimate government of China." In order to secure representation in its most important seat in the international

² Besides the US being the earliest and biggest donor, Taiwan also received aid from Japan, Saudi Arabia, the World Health Organization, the World Bank, and the Asian Development Bank during its development stage from the 1950s to the 1980s (MOFA 2009).

community, the UN, Taiwan began to provide economic assistance to other countries in exchange for diplomatic recognition as well as their support of its sole representation in the UN. Along with the economic assistance from the US government, Taiwan launched its first agricultural technical assistance aid program (“Operation Vanguard”) in the 1960s.

This strategy worked well because it had successfully targeted the emerging countries and their development needs. With the ending of WWII, a great number of former colonies declared independence. As of the year 1960 only, there were 17 newly independent countries in Africa. Due to the colonial legacy and other complex reasons, these newly independent countries were usually underdeveloped, lack of institutions and governance. Taiwan’s foreign aid came in at the right moment as these countries were in urgent need of resources to finance for their development. This was a win-win agreement for both sides. For Taiwan, these developing countries’ voices were of great importance, especially in the UN where one country owns one vote. The more diplomatic allies it has, the more likely it would benefit from issues that need more votes in the UN. For the recipient countries, on the other hand, all they had to do to exchange for development aid was merely offering diplomatic recognitions and occasionally speak for Taiwan in the international arena, which actually cost nothing in physical form. As a result of this strategy, the number of countries that supported Taiwan’s membership in the UN rose to 17 in Africa only, including two countries that did not establish any official ties with Taiwan. Compared to this, only two African countries supported Taiwan’s membership before the program had launched in 1960 (Ko 2003).

Unfortunately, despite the efforts, in 1971, the UN Resolution Number 2785

determined Beijing as the solely legitimate government that represents China. The government in Taiwan then lost its membership in the UN and began to face hostile diplomatic situation as many countries also shift recognition from Taipei to Beijing.³ To survive the diplomatic isolation, the Taiwanese government considered that diplomatic recognition to be the necessary means and foreign policy goal to cope with its isolation and maintain Taiwan's international status. Under this premise, foreign aid, for it once contributed to Taiwan's survival during the 1960s, were placed to a higher position to be the instrument to serve the government's foreign policy.

Despite harsh international circumstances after withdrawal from the UN, Taiwan was able to secure its allies counts and even increase a certain number of allies in the following decade, with its relatively stronger economic power in relation to China.⁴ Newnham (2000) estimated that the average annual GNP growth rate in the 1980s was 9.2 percent. Due to this economic strength, the government was able to provide larger amount of foreign aid to "buy" diplomatic recognition from developing countries. By 1988, for instance, the government had provided approximately USD 100 million value of foreign aid annually to 20 countries in Latin American and Caribbean ("Caribbean Basin Initiative"). As a result of this economic strength, 15 of these aid recipients offered diplomatic recognition to Taiwan.

There is a clear positive relation between the Taiwanese aid and the number of

³ In 1963, 58 countries recognized the government of Taiwan and only 42 recognized PRC as the legitimate Chinese government. Yet, by 1977, there were 111 countries that favored PRC while only 23 still recognized Taiwan (Newnham 2000).

⁴ Taiwan's GNP per capita was estimated at an approximate number of USD 13,000 in 1997 while the PRC at around USD 1,000 GNP per capita in the same year (Newnham 2000).

its allies. As a foreign ministry official once noted, at this stage, “Taiwan could purchase recognition from an average-sized Third World country with about 20 million dollars in easy credit (Newnham 2000, 273).” The effectiveness of using foreign aid to “buy” diplomatic allies had been confirmed from the increasing ally counts year by year. Believing that its economic strength would promise it more allies and help maintain its international status to a certain degree, the government continuously place foreign policy goals as a priority for its foreign aid practices.

3.2. Aid in Transition

Aid in Taiwan came to a transition period with the democratization process that started in the late 1980s. Despite its success in keeping certain number with allies to cope with harsh situation after being expelled from the UN, public debates and criticism on the government's foreign aid and foreign policy came along with the emergence of partisan politics during Taiwan's democratization.

Before democratization, the Island was under KMT-governed Martial Law and no opposition political parties and elections were allowed. The general public's voice on government's foreign aid policy was unheard. Since the late 1980s, the democratization process motivated the criticism on KMT-led government's generous aid policy, questioning whether giving considerable amount of taxpayer's money in maintaining a rather small number of allies would be worthwhile (Lee 1993). President Lee Teng-hui's foreign aid policy of using economic resources to expand Taiwan's international space indeed had succeeded in earning a number of diplomatic allies, but it is now facing domestic doubts whether his policy would still be effective since the "Republic of China (ROC)" gradually lost its appeal in the international society.

Democratization of the state and issue of national identity that came along drove the public debates on the use of foreign aid. Domestically, President Lee Teng-hui gradually moved away from the government's claim since 1949 that "ROC represents the only China" when he sensed the emerging public doubts and the opposition force from the other political party DPP in the process democratization. The opposing DPP criticized President Lee's diplomacy and claimed that Taiwan should first declare its independence; then it would be able to provide aid base on

the recipient needs and the genuine purpose of development (Lee 1993). Given the situation that DPP is gaining domestic support for its pro-independence position, President Lee gradually adjusted his policy to appeal to the public. He adopted a new diplomacy approach, claiming that his aid diplomacy was now to protect the ROC's sovereignty on Taiwan rather than to compete with Beijing over the only legitimate representation of China, as an attempt to win over the DPP supporters. He also accepted countries to recognize both Taiwan and China at the same time, despite that Beijing still cling on to its One-China policy.

National identity had been changing from time to time throughout the process of democratization. As mentioned earlier, more people have acknowledged the fact that competing for the “only Chinese government” with China was no longer feasible both political and economic-wise. The practice of dollar diplomacy was also losing its appeal because it appeared to be no longer effective to compete with the rising power of China. Under this condition, DPP's policy to emphasize the Taiwanese identity seemed to provide the people hope for this predicament. Taiwan's foreign aid policy, therefore, has been constantly revisiting under the process of domestic negotiations.

The country's international reputation was another concern of its aid practice. Taiwan's economic and political performance has earned it international praise, especially when contrasting with the Communist Chinese government. Taiwanese government considered its international reputation to be significant to win unofficial support from other countries, especially the Western powers. It tried to achieve this by establishing representative offices that enjoy the same privileges as regular embassies, providing visa exemptions, and signing bilateral trade agreements as

unofficial relations as a substitute for diplomatic recognition.

Nevertheless, money diplomacy still represented an inseparable part of Taiwan's image. During President Chen Shui-bian's administration, Taiwan suffered serious damage to its reputation on aid programs. Media had reported several times that Taiwanese aid had interfered in domestic politics of its recipients (e.g. Zambia, the Solomon Islands, and several of its Caribbean allies) although the Taiwanese government denied these accusations (Huang 2006; Painter 2004; RNZI 2006). Competition on aid diplomacy between Taiwan and China was also the target of condemnation that undermines good governance in the recipient government. The public, fearing that these accusations and negative image would undermine Taiwan's effort in winning Western support, their discontent on the government's aid policy began to increase.

Secrecy of aid budget served as another target of public criticism. Taiwanese government never published its aid amount channeled to single recipient. This number remains secret even until today, fearing its competitor China would offer more as incentive for diplomatic recognition, or the Taiwan's recipients would compare with each other and thus ask for more.⁵ This gave room for the opposition party to criticize or even exaggerate the foreign aid budget. President Lee Teng-hui's aid diplomacy was criticized strongly by its biggest opponent DPP for overly

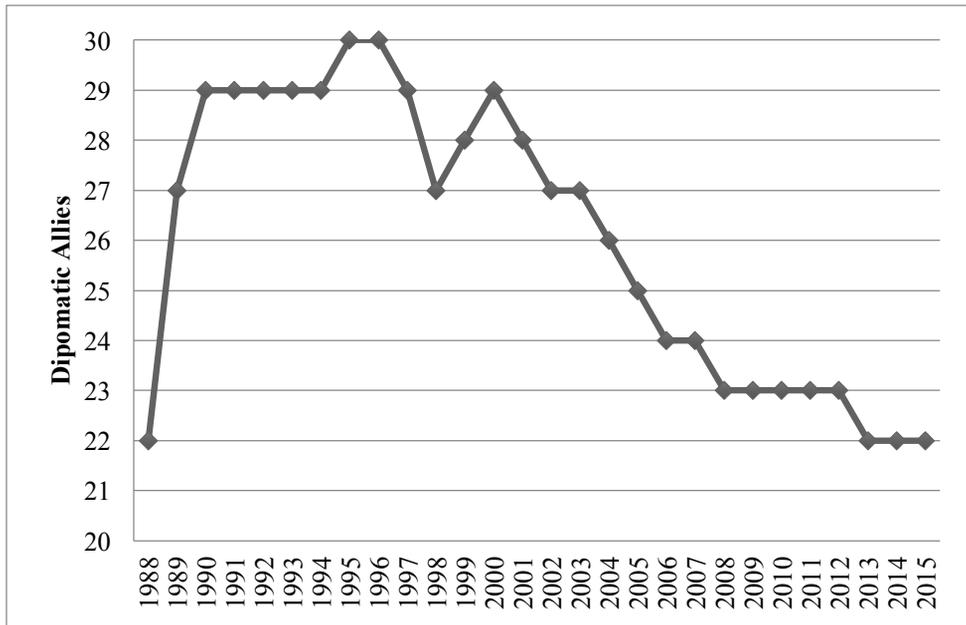
⁵ Only the budget of foreign aid in sum and the budget for specific aid projects have been published.

generous and unaccountable on decision-making process.⁶ Therefore, when the DPP came into power in the presidential house in 2000, President Chen Shui-bian promised to be more discreet with the use of aid. Under huge criticism, his words translated into actual deeds on a reduced aid budget compared to Lee.

China remained a crucial factor in affecting Taiwan's aid policy at this stage. With its growing economic strength, China was able to win over Taiwan's diplomatic allies by offering more aid money. For instance, the media reported that the Caribbean island of Dominica has shifted its recognition from Taipei to Beijing in 2004, for one reason that Beijing agreed to offer USD 100 million in aid over a five-year term – an amount that accounted half of the country's annual per capita income and outweighed what Taiwan had given in the past years (Painter 2004). China's "war plan" had caused Taiwan in losing six diplomatic allies during President Chen's eight year of presidencies (see Figure 2). Now that increasing aid budget to counter China's aggressive move was no longer a feasible option due to the lack of domestic support and more powerful legislature on aid budget, the government then sought for ways that did not involve money, such as making presidential visits to its diplomatic allies or hosting regional groupings to "avoid being held hostage by one" (Atkinson 2014, 417). The government also became more discreet in establishing new ties under the circumstances that the potential partner's political environment was stable and supported establishing diplomatic relations with Taiwan.

⁶ It was reported that President Lee promised USD 1.6 billion in aid to Macedonia in exchange for diplomatic recognition in 1999, USD 300 million aid package for a reconstruction in Kosovo, USD 1 billion aid package to Albania in 1999, and USD 2 billion to Papua New Guinea (Tubilewicz 2016).

Figure 2. Taiwan's official diplomatic allies, 1988-2015



Note: Years of president in position: Lee Teng-hui (1988-2000), Chen Shui-bian (2000-2008), Ma Ying-jeou (2000-2016), Tsai Ing-wen (2016-)

Source: Ministry of Foreign Affairs, Taiwan.

To sum up, throughout the historical development until this stage, foreign aid had been mainly subject to the use of supporting foreign policy of Taiwan to fulfill its national interests to survive diplomatic isolation. However, when entering into the democratization period in the late 1980s, more factors had emerged and affected the use of Taiwanese aid. These factors are both internal and external, such as partisan competition, state transformation, raising Taiwan's international reputation, and legislature on aid secrecy and decision making process. In the meantime, the china factor never once disappeared from the variables that affected foreign aid policy in Taiwan.

IV. Ma Ying-jeou's Foreign Aid Policy

4.1. Improving the Image of Taiwanese Aid

Putnam's (1988) Two-Level Game suggests that a country's policy making is an outcome of two-stage negotiations, where a proposed policy at international table needs to gain the majority among the country's constituents, and vice versa. Adopting this theoretical framework, this paper demonstrates the negotiations of Taiwan's foreign aid policy at both international and domestic levels and further analyzes how Ma Ying-jeou, under constraints at both levels, adopted a different strategy to satisfy both levels and reached the intended outcome.

4.1.1. International Constraint

As elaborated in Chapter III, Taiwan had suffered from negative image of its dollar diplomacy during previous terms of presidency. Its foreign aid had often linked with the negative images of "bribery," "corruption" and "non-transparent" when it used foreign aid to exchange for official recognitions of its legal status and sovereignty from recipient countries. It had frequently been reported by international media to be involved in scandals related to foreign elections. One case that seriously damaged Taiwan's reputation was the Papua New Guinea case happened during both Lee Teng-hui's and Chen Shui-bian's presidencies.

Papua New Guinea first established official relations with Taiwan in 1999. Unexpectedly, this relationship lasted for two weeks only. The bilateral relationship stopped right after the former Prime Minister Bill Skate was accused of demanding

a USD 2.3 billion loan from Taiwan in exchange for Papua New Guinea's diplomatic recognition. Two weeks later, the newly-elected Prime Minister Mekere Morauta withdrew this agreement under Beijing's pressure. This was listed by Time Magazine as the "best scandals of the year," imposing serious damage to Taiwan's international reputation (Times Asia 1999).

Likewise, the Chen Shui-bian administration tried to earn Papua New Guinea's favor again by arranging two middlemen to help establish official bilateral relations. Taiwan's foreign ministry provided USD 30 million as an exchange for Papua New Guinea's diplomatic recognition, but unfortunately, this money was embezzled by the two middlemen after negotiation failed between the officials at two sides (The Wall Street Journal 2008). These disclosures triggered great criticism from the international community as Taiwan was accused of intervening other country's sovereignty by engaging in foreign elections with its own money.

In the Two-Level Game theory, Putnam (1988) explained how one country tries to alter another country's perception to reach the agreement it wants by persuading opinion leaders on the other side. In the case of Papua New Guinea, government of Taiwan provided foreign aid in exchange for opinion leader's diplomatic recognition is the very presentation of this logic. On the perspective of the receiving country, its leader could use this money as a bargaining gambit to promise economic development for the country as a way to earn more votes for himself or herself. This win-win cooperation seemed to work well as both sides got what they wanted. However, it was unable to satisfy the criticism of accusing Taiwan of intervening internal affairs of other countries. The international community especially criticized Taiwan as not genuinely care about its recipient's development

because it withdrew foreign aid immediately once the recipient shifts its recognition.

Huge criticism on Taiwan's foreign aid policy created a negative image for a long time in the international society. This has suggested several things. First of all, Taiwan needs friendly relations with these countries as it needed their support in the international community. One of the several conditions for developing countries to receive Taiwanese aid is to not only provide official diplomatic recognition, but also to represent Taiwan's interests in the international arena. Therefore, maintaining friendly relations with the allies is of great importance for the government, and negative image of Taiwan would make its own win-sets in the ally countries smaller as the people gains negative impression on Taiwanese aid.

Secondly, Taiwan needed not only the diplomatic allies but also the whole international community's support to not exclude it from the international affairs. Negative reputation does nothing good if the Taiwanese government wants to expand its space in the world. Therefore, these pressures acted as constraints to the Ma Ying-jeou government and his foreign aid policy. In the meantime, if this negative image continues to deteriorate, it is also very likely to affect domestic Taiwanese people's opinion towards the government's foreign aid policy and make them less supportive to the policy.

4.1.2. Domestic Bargaining

Negative image of Taiwanese aid was also subject to domestic criticism in two of its constituents: political parties and public opinions. First one, criticism from political parties, can be exemplified by the opinion leader's speech and their proposed policies during Taiwan's presidential elections.

In the 2008 Presidential election, major competing parties were Kuomintang (KMT) and Democratic Progressive Party (DPP). The two parties have always adopted quite different foreign policies even until today because of their fundamental disparity in Taiwan's political status. DPP has always been an activist on Taiwan's sovereignty issue and always made a clear stand to distant itself from China and the KMT. On the other hand, KMT's attitude towards China has been revising over the past decades. From the earliest position of defending Republic of China (ROC) as "the only government representing China" to Lee Teng-hui's seeking diplomatic recognition of the "ROC on Taiwan," the party basically had admitted that Taiwan's legal status is to be restricted to the Island. Nevertheless, when it comes to Ma Ying-jeou's administration, his government no longer put forward the issue of sovereignty and even returned to the previous idea of "ROC as one China" (Tubilewicz 2016, 49).

Ma Ying-jeou pushed forward for his foreign policy during the 2008 elections, aiming at stopping the vicious aid competition with China that had damaged Taiwan's international image. He further proposed that a warming relation with China is the only way to end aid competition as well as to promote Taiwan's international status. In contrast to the KMT candidate Ma Ying-jeou, DPP candidate Frank Hsieh had quite different policy. Along with his affiliated DPP's political stand that Taiwan is a *de facto* independent country, he proposed to amend the constitution to fit with Taiwan's current political status. Only by doing so, he noted, can Taiwan be included into the international society and join the international organizations. He avoided to put forward any specific Cross-Strait policies directly but laid emphasis on improving relations with countries other than China, such as the US and Japan. However, in responding to previous DPP President Chen Shui-bian's foreign aid

policy, he defended that not all Chen's policy was checkbook diplomacy and warned that Ma Ying-jeou's Cross-Strait policy that relied on China's goodwill was worrying (Taipei Times 2008).

A clear bargaining process between the political parties can be seen during the aforementioned partisan debates. In fact, most of the presidential candidates' policies are not so different – except for their foreign policies, which is the part that makes them distinct from the other. In contrast to DPP's firm stand on emphasizing Taiwan's integrated sovereignty, KMT has been revisiting its political stand throughout the elections. From Chiang Ching-kuo, Lee Teng-hui, to Chen Shui-bian's presidencies, Taiwan's policy towards China has slightly revisited in order to cater to the general public opinion. Ma Ying-jeou's Cross-Strait policy during the 2008 election was clearly a strategy to distant himself from his opponent, DPP candidate Frank Hsieh, and the previous president's policy. As previously discussed, Chen Shui-bian's foreign aid policy had long been criticized not only domestically but internationally of adopting illegitimate practices. Under these circumstances, distant himself from Chen would give Ma Ying-jeou a better chance of winning the presidential election.

Another actor in the domestic bargaining process is the opinion of the general public and its representation through political parties. This can be exemplified by the opinion polls during Chen Shui-bian. Most of the opinion polls during Chen's term indicated that majority of the Taiwanese people were against Chen Shui-bian's strategy of using foreign aid to exchange for diplomatic recognition, because this has linked Taiwan with negative image in the international society. For instance, in an opinion poll by Taiwan Thinktank conducted in 2006, majority of the Taiwanese

people considered that the reason why Taiwan's international space continuously reduced was because of the suppression by China and the wrongful foreign policy. In the same survey, 39 percent of the people considered negotiating with China to be a better way to expand Taiwan's international space, while 50 percent of the people prioritized communication and exchange with China to be the first thing in relation to any other foreign countries.⁷ As the country began to democratize since the 1990s, public opinion has been of great importance as the political parties and their leaders must consider major opinion in their policy making process in order to win votes. Ma Ying-jeou's foreign aid policy is no exception. His different foreign aid policy that distinct himself from his opponent and his ability to realize that his win-sets lie in the public discontent on dollar diplomacy were what contribute to his winning in the 2008 election.

Same ideology could be seen in the following election. During the 2012 election when Ma was the president in position, he still carefully followed the domestic opinion in order to gain himself the bigger win-sets in the international negotiation. This time, he continuously emphasized the achievements of his foreign policy and indicated how these accomplishments had helped Taiwan improved its negative image. For instance, his government continuously lay emphasis on that the policy of diplomatic truce had allowed the country to successfully join the World Health Assembly (WHA) as an observer, marking the first UN entities that allowed Taiwan's participation ever since the country's withdrawal in 1971 and a fact that the government's policy had expanded Taiwan's international space. He also gradually

⁷ Taiwan Thinktank opinion poll on "Taiwan's foreign policy" (2006). Assessed December 31, 2016. http://www.taiwanthinktank.org/ttt/attachment/article_670_attach1.pdf.

revisited his foreign policy in order to avoid being seen overly close to China. He started to lay emphasis on the Taiwan/ROC's sovereignty and make sure that Taiwan's sovereignty and independence would be intact under his foreign policy to avoid overly favoring China and to attract the potential median Taiwanese voters.

This evidence, again, suggests that the majority of the Taiwanese people prefer an improved image of Taiwan's foreign aid and support peaceful dialogue with China. Among the domestic constituents, some of them may fear being too closely related to China, as the DPP and the general opinion it represents. To avoid this and to attract the median voters, the leader in power revisited his policy to capture the bigger win-sets and produce a foreign aid policy that has the best probability to be ratified.

4.1.3. International-Domestic Synergy

Despite the disparity between major political parties, Ma Ying-jeou's victory in presidential election shows that the domestic opinion favored an improved Taiwan's foreign aid policy. Ma Ying-jeou's win-sets on this matter was large. This put him in a better position to bargain with external actors and to reach a deal that is very likely to satisfy the Taiwanese constituents. The strategy he adopted to achieve the intended outcome is "flexible diplomacy," or more often called "diplomatic truce." The content of this policy could be best explained by the words of his Ministry of Foreign Affairs, Francisco H.L. Ou, in 2012:

The idea of flexible diplomacy is based on the spirit of pragmatism and to find a space for Taiwan's diplomacy.....both sides cross the Taiwan Strait enter into dialogues instead of competition, stop competition based on mutual trust, no

longer enter into vicious competition of “checkbook diplomacy.” Instead, the government promotes “economy diplomacy,” “culture diplomacy” and “image diplomacy.” By doing so, it reduces budget and improves Taiwan’s international image.....Taiwan needs to establish partnership with important allies and improve substantial relations with countries that do not have official ties with Taiwan (Chang 2015, 83).⁸

The idea of pragmatism suggests that Ma Ying-jeou’s foreign policy is based on the idea of constructivism rather than viewing Taiwan’s international relations as a zero-sum game or in the realism perspective as his predecessors had done for many years. One can tell from the statement that the Ma Ying-jeou government considered the reason why Taiwan had faced difficulties in the international community was because both China and Taiwan had seen each other as enemies for a long time and therefore had engaged in vicious competition by using foreign aid as a means to earn diplomatic support for each other’s recognition. His words of reducing aid budget also hints that, since the years that Taiwan’s economic power outweighs China has already passed, engaging in checkbook diplomacy is no longer a feasible and desirable option. Doing this not only wastes the national budget but could also damage Taiwan’s international reputation.

Rather than putting the Cross-Strait relations under the realism perspective, constructivist’s idea is more feasible for Ma Ying-jeou. Social constructivism’s idea suggests that international relations are neither unavoidable consequences of human nature nor necessary elements in the world politics. Instead, they are socially and

⁸ Adopted from the 2012 Office of the President website. Original text was translated by the author of this paper.

historically constructed (Wendt 1992). Applying this idea to Ma Ying-jeou's diplomatic truce, it is not so hard to understand why he thinks that Taiwan needs to change its perceptions towards China, making its biggest opponent believe that pursuing peace with Taiwan is more beneficial than engaging in competition with it. In terms of either economic benefits or international images, he considered his foreign policy is beneficial to both sides. Applying the two-level game framework, the win-sets of Taiwan's international negotiation with either China or with the international community lie in the improved image of Taiwanese aid.

To further examine Ma Ying-jeou's strategy, this paper finds that the objective of his foreign aid policy remains similar with his predecessors, even though that its nature has now changed from competing with China to making peace with China. In the *2009 White Paper on Foreign Aid Policy*, the Ministry of Foreign Affairs (MOFA) clearly indicated that providing foreign aid forms an important part of Taiwan's diplomatic objective and fits with the nation's interests. The White Paper further elaborated by explaining that the purpose of providing aid includes "promoting ties with diplomatic allies and other friendly countries, fulfilling global responsibilities, safeguarding the security of fellow man, repaying the international community and giving full play to the humanitarian spirit (MOFA 2009, 3)."

The reason for the government to adopt the same objective is probably because even though the government has reached an agreement with China, it considered that a certain amount of development aid was still needed to keep these allies in line. From the previous discussion we know that Taiwan's diplomatic allies are usually small, poor, and underdeveloped. Spending most part of its foreign aid on these countries is not only "cost-effective" but also helps maintain friendly bilateral

relationships.

This argument can be further proved by Atkinson's (2014) interview with a Taiwanese official, where he noted that even though the actual percentage of aid that goes to the allies has been unknown, the diplomatic allies receive the vast majority of Taiwan's foreign aid. The *2009 White Paper* also directly indicated the same priority:

Due to its unique diplomatic situation, it is imperative that Taiwan prioritize the allocation of its limited resources based mainly on the need to maintain and strengthen relations with its diplomatic allies (MOFA 2009, 1).

The government under Ma Ying-jeou did not just change its objective because it had maintained relatively warm relation with China. It still allocated the majority of its foreign aid resources to the diplomatic allies in case these allies might one day turn their back on Taiwan.

In regards to the actual negotiation process on the diplomatic truce policy, we may not be able to know how it went with China, but we can tell from some examples that diplomatic truce is not just a unilateral policy proposed by the Ma Ying-jeou's government only but is tacitly agreed by the Chinese government as well. During a meeting between the Chairmen of American Institute in Taiwan (AIT) Raymond Burghardt and Taiwan's foreign minister Ou in 2009, Ou pointed out how Beijing has tacitly accepted Ma Ying-jeou's diplomatic truce policy by indicating that Beijing was "discouraging Taiwan's diplomatic partners' inquiries about switching diplomatic recognition" and had already refused to accept some of Taiwan's most important allies, including Paraguay, the Dominican Republic, and Panama (WikiLeaks 2009, para. 16).

Another case to demonstrate China's agreement with the diplomatic truce was how President Ricardo Martinelli of Panama, despite expressing great interests in establishing diplomatic ties with China out of better economic interests, he was told by the Chinese diplomats to remain the status quo, since officially recognizing China at the moment would damage the recently improved Cross-Strait relations (WikiLeaks 2010). Therefore, not only Taiwan, China did not seem to be willing to do anything that could affect the warming relations at this moment.

The reason why China was willing to accept this agreement could be realized as follows. Since China has now overwhelmingly larger ally numbers in contrast to Taiwan, this may be a reason why China was not so urgent to look for more allies.⁹ Furthermore, as previously mentioned, unlike DPP's leaders, Ma Ying-jeou's government did not actively bring Taiwan's sovereignty issue to the international table and no longer insisted in joining major international organizations under the name of Taiwan but was willing to accept Chinese Taipei or other names that they deemed feasible. These concessions made on the issue of Cross-Strait dispute are probably why Ma's diplomatic truce is possible. Although the sustainability of the truce remains to be seen, his strategy of making peace with China did successfully secure Taiwan's diplomatic allies, losing only Gambia in 2013 (see previous Figure 2).

In order to achieve the intended outcome of improved Taiwanese aid, Ma Ying-jeou and his government had been particularly careful of its aid practices to avoid being involved in aid scandals. After his inauguration, Ma highlighted three

⁹ Up until December 2016, China has established diplomatic relations with 174 countries in relation to Taiwan's 21 allies.

key principles to be his government's top priority on foreign aid. He instructed the relevant agencies and required them to adhere to principles of "appropriate motives, due diligence and effective practices when offering aid to foreign countries (MOFA 2009, 2)." Moreover, an official has noted that President Ma had instructed the diplomatic officials that 'if anyone are caught "checkbooking" then they are done (Atkinson 2014, 425).' Ma noted himself in the speech addressed when visiting the foreign ministry, suggesting his government's efforts to avoid scandals,

*We cannot corrupt ourselves by using inappropriate aid giving. Scandals like the Papua New Guinea case must never happen again. Proper aid policy could improve our international image as well as image towards states that have no diplomatic relations with us, including states such as the US, who have absolute relations with Taiwan's survival and development in the international society (Office of the President 2008, para. 17).*¹⁰

Interactions with diplomatic allies could also be seen as another two-level game, where his domestic win-set of improving aid reputation reflects on his bargaining with diplomatic allies over the amount of foreign aid. Before his first overseas visit to Taiwan's diplomatic allies in 2008 (Paraguay and Dominican Republic), Ma announced that he was not plan to act as previous President Chen Shui-bian, who often announced aid packages during overseas diplomatic trips. Ma would neither talk about any specific aid plans with the leaders of allies nor announce any new aid packages to avoid being caught in scandals and to separate himself from the previous Chen administration as promised during the elections (Epoch Times 2008). Ma administration also rejected the Paraguayan government's demand for a

¹⁰ Original text translated by the author of this paper.

USD 71 million grant in return for continuous diplomatic support and promised not to provide any new aid disbursement unless the Paraguayan government provided concrete plans of its money usage (Hsu 2008).

In another example, the Prime Minister of Solomon Islands, Danny Phillip, misused USD 1.5 million aid funding from Taiwan. In responding to this diplomatic incident, Ambassador Roy Wu of Taiwan refused to accept the Prime Minister's behavior and indirectly caused him to step down (Solomon Star 2011).

From these aforementioned cases, we can tell that compared with the previous government, Ma Ying-jeou's government was no longer willing to tolerate the allied government and their unreasonable requests of Taiwan to provide excessive foreign aid as its previous governments have done. Doing this would not help improve the image of Taiwanese aid and would also make Ma Ying-jeou's win-sets at domestic level smaller.

Overall, findings in this section prove that an improved foreign aid policy is what both international community and domestic constituents desire. This makes clear the objectives and constraints for the Taiwanese negotiator and determines his policy making. Ma balanced the public discontent and international condemnation on the previous dollar diplomacy by revising the idea into making truce with China and more carefully practicing foreign aid and less tolerating the allied government's misconducts. This has successfully promised his government an improved international reputation and secured donor-recipient relationships.

4.2. Disagreement on Aid Budget

4.2.1. International Constraint

Constraint imposed on Taiwan's foreign aid policy at the international level comes from the increasing pressure that a bigger contribution to the developing world is requested for the donors, and a more responsible mechanism are demanded when undergoing development work. UN launched its Millennium Development Goals (MDGs) as the resolution of the international society to help development and poverty reduction in the new century. The eight major goals proposed set up a clear target for countries to reach them by 2015.

In order to achieve these goals in a more efficient way, the Organization for Economic Cooperation and Development (OECD) passed the Paris Declaration on Aid Effectiveness in 2005, putting forward five principles and 12 targets for countries to decide their development policies and monitoring and evaluation (M&E) mechanism. Paris Declaration further called upon the collaborations among donors to harmonize their development work and make best use of the resources.¹¹ In addition to the above common goals acknowledged by the countries, a target for donor countries to allocate 0.7 percent of their Gross National Income (GNI) to the Official Development Assistance (ODA) is requested. So far, this target has generally been accepted by members of the OECD Development Assistance Committee (DAC) that consists of major donors to the developing world.

In light of the growing trend for wealthier countries to contribute more to the

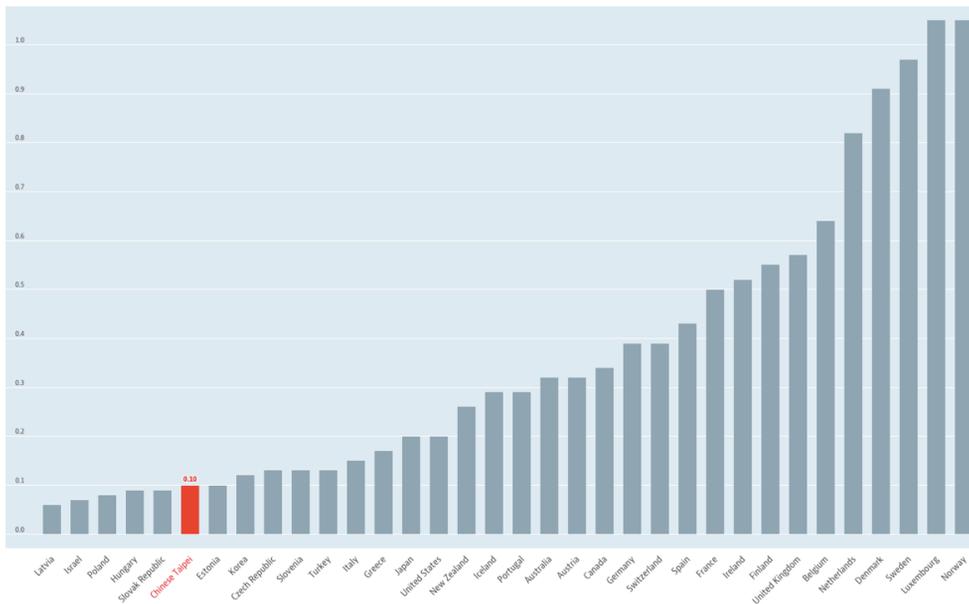
¹¹ OECD. Assessed December 31, 2016.

<http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>

field of development, Taiwanese government has been under similar pressures that request it to play a bigger role in development work. Looking back to the history, the country has been undergone several stages of economic development over the past decades and has finally become an industrialized, developed country. Its economic strength has constantly received increased pressures from especially the developed countries and international organizations. The US and Asian Development Bank (ADB), two of the biggest donors to Taiwan during the 1960s, have frequently urged the government to increase its national budget on foreign aid (Lin 1999). However, in 2010, its ODA to GNI ratio was merely 0.1 percent and much lower than many of the donors and OECD-DAC members (see Figure 3).

These targets and guidelines may not be able to directly bind the Taiwanese government as these guidelines are not legally binding if any countries fail to comply. However, as a relatively wealthier developed country and a democratic society, it is very unlikely that the Taiwanese government would neglect any of these pressures imposed on it, especially when it has been trying hard to expand its international space. The government of Taiwan would make sure that it is following the major trends to be perceived as part of the international society.

Figure 3. Taiwan's ODA as % of GNI compared to OECD members, 2010



Source: OECD, 2016

4.2.2. Domestic Bargaining

Unlike the pressure requesting Taiwan to put more efforts in helping developing countries, the domestic constituents have a different voice. This disparity can be seen from the competition among political parties and domestic public opinion. Early in the Chen Shui-bian's administration, the opposing party KMT had urged the ruling DPP party to be more discreet with aid expenditure because Taiwan had just undergone several natural disasters (e.g. the 1999 Jiji earthquake) and the country had not yet fully recovered from the damage. The opposing KMT legislators considered that the national budget should be spent on disaster relief and reconstruction or other domestic needs instead of helping other countries (Ko 2007). Using its majority seats in the Legislative Yuan and support from other smaller opposition parties, the KMT often challenged Chen Shui-bian administration by

cutting Taiwanese aid budget. For instance, the Foreign Relations Committee at the Legislative Yuan voted to temporarily freeze the aid budget disbursed to the Latin America region in response to the corruption scandals involving Taiwan's fund used by former Costa Rican President Miguel Angel Rodriguez and the Nicaraguan President Enrique Bolanos in 2004 (Su 2004).

Domestic voice requesting for reduced aid expenditure could be resulted from the fact that Taiwanese people generally do not genuinely understand the nature of development work. Lin (2001) blamed the government to not properly educate the people about the importance of development aid to the recipient countries as well as its possible function for the government to improve its international status. Since the people are not well-educated or not fully informed of the government's work, it is likely that they would link Taiwanese aid to the negative image of scandals reported by the media and still perceived Taiwanese aid as dollar diplomacy or checkbook diplomacy.

Interestingly, the parties sometimes adopted narratives that were different from the majority domestic opinion when they were in opposition. As this paper has argued earlier, the political parties tend to adopt policies opposite to their opponents in order to alienate themselves from the other. Therefore, during the Chen Shui-bian administration, the KMT chose to adopt the narrative of reducing aid budget to alienate itself from the DPP to win over votes for the party. This argument can be further proved by another different narrative adopted by the DPP later when the KMT came to power in 2008.

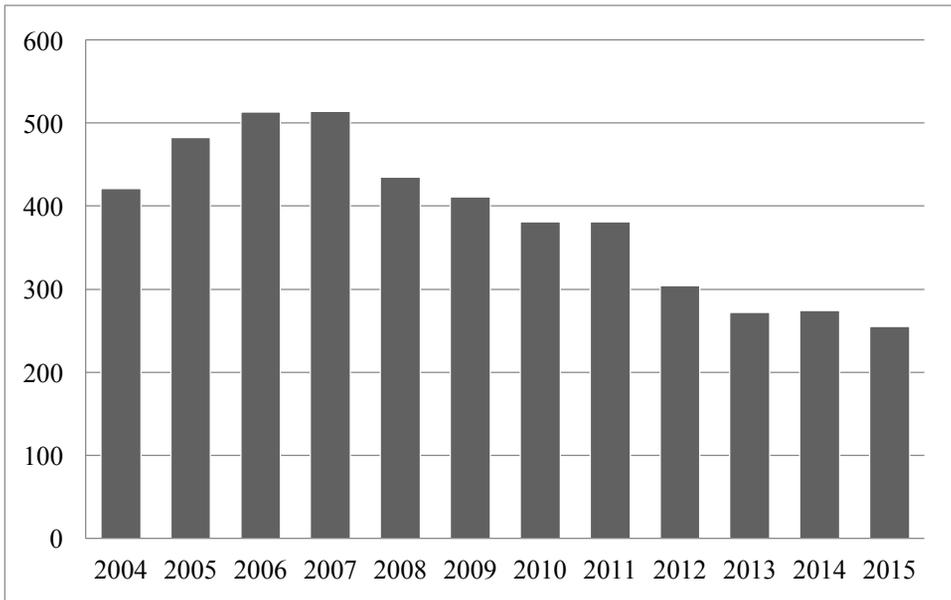
When Ma Ying-jeou became the president in 2008, competition on aid expenditure continued among political parties in the Legislative Yuan. However,

since Ma adopted a different foreign policy that made his aid budget start to decrease (see Figure 4), excessive expenditure was no longer a target for criticism for the opposing DPP. On the contrary, the often criticized Ma Ying-jeou and his government that a reduced budget was “not enough” to maintain diplomatic relationships with Taiwan’s allies. In other words, it is not enough to satisfy the allies’ demands.

Another case also shows that the major parties possessed extremely different opinions on the budget of foreign aid. According to the assessment report by the budget center at the Legislative Yuan in 2014, the budget implementation rate after Ma’s inauguration had been relatively low. The item *International Cooperation* was reserved for NTD 120 million in 2009, NTD 260 millions in 2010, NTD 1.14 billion in 2011, and NTD 2.6 billions in 2012. Further explained in the report, this budget reservation was resulted from the fact that allied governments often did not follow up with proposals or simply cancelled the projects (Chen 2014). In responding to this, the DPP legislators criticized Ma’s foreign aid policy had halted Taiwan’s diplomatic system. As a consequence, the DPP legislators proposed to temporarily freeze this part of aid budget for the reason of “ineffective budget implementation,” despite the KMT legislators defended that the government was discreet in using aid and did not simply waste a lot of money as the previous government.¹²

¹² Records of debate could be found at the Parliamentary Library of Legislative Yuan at <http://npl.ly.gov.tw/do/www/homePage>. Accessed October 31, 2016.

Figure 4. Taiwan's Official Development Assistance (ODA), 2004-2015



Unit: USD millions (current prices)

Source: OECD, 2016.

Examples of opposing parties adopting different narratives when they were in opposition demonstrate the long-simmering bi-partisan competition existing in the Taiwanese society, where the opposing party would try to alienate itself from the other party to earn public votes even if the criticism could sometimes be far-fetched.

However, during this period, the majority of the constituents still preferred a reduced aid budget. The decision maker's win-sets, therefore, rest in reducing Taiwan's overall foreign aid budget. If the negotiator wants to reach an agreement on the international table that is likely to be ratified by the constituents, he or she must propose policies to reduce the aid budget.

4.2.3. International-Domestic Synergy

In light of the international pressure urging Taiwan to play a bigger role in the development field, while the domestic opinion wanting it to reduce foreign aid budget, Ma Ying-jeou's strategies to strike a balance between the two are the following four: reducing overall aid budget while increasing multilateral aid, strengthening public diplomacy, and devoting more into humanitarian work.

Under Ma Ying-jeou's major foreign policy, diplomatic truce, worrying that Taiwan's diplomatic allies might switch recognition to China was no longer needed. At least during Ma Ying-jeou's term, Taiwan no longer have to provide a handsome amount of financial resource to compete with China. This policy outcome can be seen from the government's annual aid budget. Although Taiwan never published its aid budget to specific country for it claims that the allies might compare with each other and ask for more, or it fears that China would win over Taiwan's allies by providing more foreign aid, the overall budget of the foreign ministry has been released to the public since 2001. Since Ma came to presidency in 2008, foreign aid budget has been reduced every year as an intended outcome foreseen by his diplomatic truce (see previous Figure 4). This policy of Ma had captured the domestic constituents' negative impression on checkbook diplomacy and their demand for a reduced aid budget. Therefore, despite the opposing DPP accused his policy of being less effective, Ma managed to not only satisfy the domestic demand but also secure the number of Taiwan's diplomatic allies, losing only one ally during his term (see previous Figure 2).

Under the framework of two-level game, Ma Ying-jeou, as a negotiator, also had to satisfy the other level of negotiation. As previously mentioned, the increasing

pressure from the international society had demanded for Taiwan's greater contribution to the development work. Ma Ying-jeou's strategy accordingly was to increase the proportion of foreign aid that went to development aid agencies. Despite its inability to participate major development aid agencies, such as UN or World Bank, Taiwan has been member or observer of several regional development organizations (see Figure 5) and indirectly involved in these regions' development work. For years, Taiwanese government had been continuously allocating national budget on multilateral aid to these organizations.

Figure 5. Development aid agencies that Taiwan participates

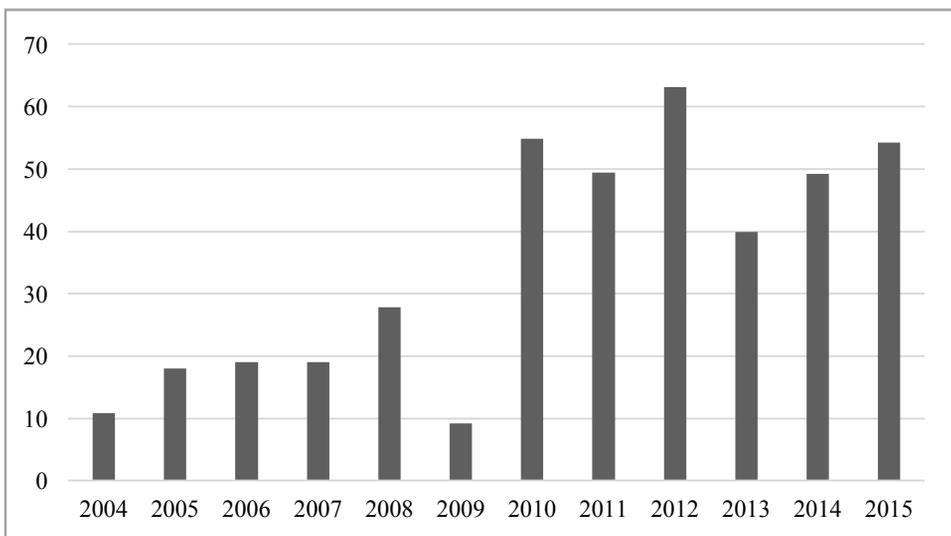
Name of agency	Year of joining
Asian Development Bank	Since 1966
European Bank for Reconstruction and Development	Since 1991
Inter-American Development	Since 1991
Central American Bank for Economic	Since 1992

Source: MOFA, Taiwan

According to the OECD statistics, Taiwan's multilateral aid had increased rapidly under Ma administration. Taiwan provided USD 50 millions value of aid to the international development agencies in 2014, compared to only USD 19 millions of multilateral aid in 2006 during Chen Shui-bian's term (see Figure 6). Ma Ying-jeou's strategy of increasing Taiwan's multilateral aid suggests several things.

Firstly, multilateral aid is usually considered less political than bilateral aid since the donor governments generally do not designate their aid recipients (except or earmarked aid) but leave the decisions to the development agencies. For countries like Taiwan whose foreign aid has often been seen strongly political and diplomatic, multilateral aid would reduce its strong political motivations and add more humanitarian elements. Secondly, by increasing multilateral aid, Ma Ying-jeou also satisfied international pressures that urged him to contribute more to the development field.

Figure 6. Multilateral aid from Taiwan, 2004-2015



Unit: USD millions (current prices)

Source: OECD, 2016

Ma's second strategy to balance the two-level game of Taiwanese aid is to strengthen public diplomacy. With less major scandals being reported as a result of making truce with Beijing, Ma administration took the opportunity and announced

the government's new direction of aid policy. The government proposed its intention to follow the major international development norms. One of his public diplomacy effort is to link the government's development work with the sharing of "Taiwan experience." This is a rhetoric that appeared frequently in Ma Ying-jeou's aid discourse. Ma administration continuously emphasized how Taiwan needs to become a responsible donor and give back to the international community, because it could never have become as affluent as it is today if there has not been the international aid that it had once received from the international society (BBC Chinese 2008). It is the government's responsibility provide foreign aid, claimed by the government.

Similar discourse could be found in the discourse of the South Korean government. South Korea had experienced a similar path that it lifted itself from an aid receiving country to aid donor by using the support from international society. It further joined the OECD-DAC in 2010 as the first member that transformed itself from a former aid recipient. This successful development experience of transforming itself from a poor developing country to a member of the advanced country's club has been continuously used by the South Korean government in its aid-giving discourse (ODA Korea 2012).

Message of putting forward the public diplomacy is explicit: to justify the government's aid-giving for domestic audience. As mentioned previously, Taiwanese people have doubts on the government's foreign aid policy since it had long been linked with the terms of dollar diplomacy, corruption, bribery, and so on. Negative reputation made the people less willing to support the government's foreign aid policy. Discourses like the "Taiwan experience" can therefore justify the

government's decision of providing aid to the domestic constituents (especially when the aid recipient countries are usually geographically unrelated to Taiwan). It also highlights the successful experience of Taiwan, making the people feel proud of its own development experience and increasing their support to the government's policy.

Ma Ying-jeou's efforts of public diplomacy could be exemplified by another fact that he announced the intention to connect with the international development regimes, but did not specify particular strategies that the government would use to achieve some of its intended outcomes. Noted in MOFA's *2009 White Paper*:

By establishing a complete framework for international cooperation in line with the MDGs and by readjusting the nation's aid model to fit with the Paris Declaration, MOFA is ensuring that Taiwan conforms to global trends and plays the role of responsible stakeholder in the international community (MOFA 2009, 17).

The government announced the new direction that it would adopt the MDGs and Paris Declaration, which has never been mentioned by any of the previous governments. However, it did not propose any "new" policies or aid projects but simply readjust the country's aid programs to fit with the international development doctrines.

By carefully examining the *2009 White Paper* we can find that the government simply made efforts in categorizing the existing aid programs to fit with the major norms. For instance, the existing aid projects and programs were thereby re-categorized into five major focuses of MDGs (MOFA 2009, 46):

1. *Eradication of extreme poverty and hunger;*

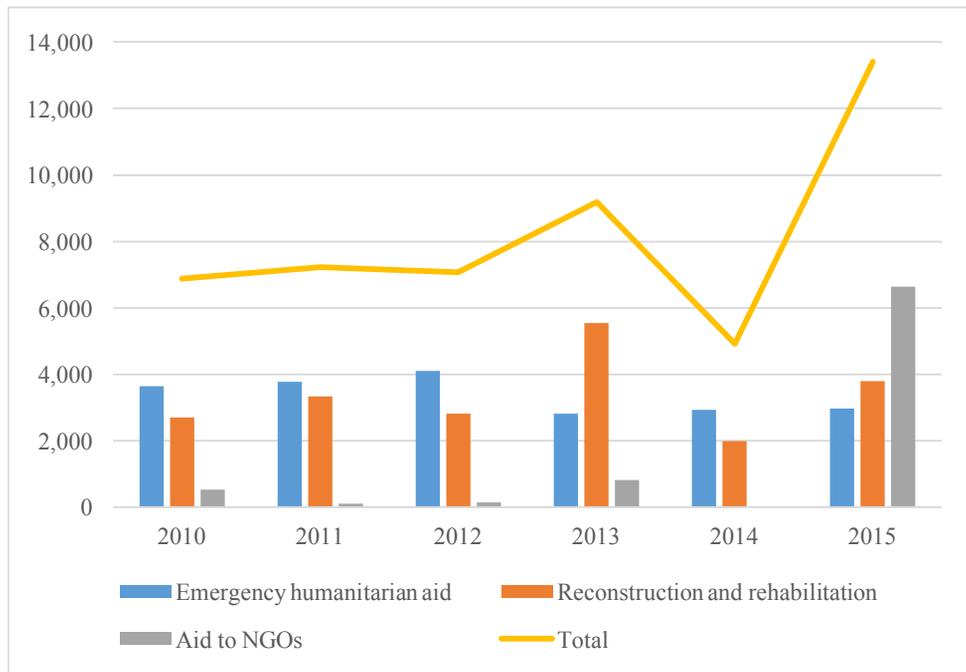
2. *Achievement of universal primary education;*
3. *Combat of HIV/AIDS, malaria and other diseases;*
4. *Attainment of environmental sustainability; and*
5. *Establishment of a Global Partnership for Development*

These focuses were nothing new, but were the development works that Taiwan had been doing since the previous administrations. Ma Ying-jeou's new direction only brought in the new international norms and doctrines that had never been introduced before. This public diplomacy trick, however, appears to bring a new leaf for Taiwan's foreign aid work. Under the situation where major scandals on checkbook diplomacy that hit headlines has also reduced during this period, Ma Ying-jeou's strategy has managed to reduce the negative reputation about Taiwanese aid to a certain extent.

Lastly strategy to balance the international and domestic pressures, Ma Ying-jeou committed to an increase of humanitarian aid and an active participation via international and local NGOs. According to the government's statistics, Taiwanese civil organizations had contributed a lot in humanitarian assistance and reconstruction after major disasters, such as in the 2004 Indian Ocean earthquake and the Tsunami and the 2008 Cyclone Nargis that greatly damaged Myanmar. These efforts had earned the media praise for Taiwanese NGOs. Approximately 20 Taiwanese civil society organizations contributed more than USD 70 million humanitarian aid in the year of 2008. Meanwhile, the government had been continuously funding local NGOs for their cooperation with International NGOs to help them increase international presentation. Overall, the government's budget on humanitarian aid, reconstruction and rehabilitation and its aid to NGOs had

increased, and the total budget reached its peak in 2015 (see Figure 7).

Figure 7. Taiwan's humanitarian aid and aid to NGOs, 2010-2015



Unit: USD thousands

Source: MOFA, Taiwan

What the above data shows us are as follows. First of all, since Taiwan's relations with China are special and sensitive, most of the development aid agencies have concerns about the One-China Policy and generally do not recognize Taiwan as a separate member. NGOs, therefore, could work as a good platform since they are usually less political and generally do not involve diplomacy or official recognition issues. By funding Taiwanese NGOs, the government of Taiwan had indirectly used this platform to expand Taiwan's visibility in the international community.

Secondly, major disasters often hit the headlines because of its timeliness and instantaneity. Therefore, humanitarian assistance that comes with the disasters would also be reported frequently. By increasing its aid budget to humanitarian assistance, the government is more likely to make the name Taiwan appear in the major international media. Furthermore, more humanitarianism in a donor's aid enhances the perception of altruism that is considered beneficial to the recipient countries.

V. Conclusion

This paper demonstrates Taiwan's foreign aid policy under Ma Ying-jeou's presidency through the theoretical framework of Two-Level Game theory and concludes that Ma Ying-jeou's foreign aid policy making was an outcome of both international constraints and domestic bargaining, which made him adopted a less radical foreign aid policy to satisfy actors at both levels. Detailed findings are elaborated as follows.

First of all, throughout the examination of historical development on Taiwanese aid, it is confirmed that foreign aid had been used as a means to support Taiwan's foreign policy goals. However, several internal factors have arisen after the country started to democratize, and these factors has acted as domestic constraints for policy-makers. Under the context of Cross-Strat dispute and Taiwan's withdrawal from the UN in 1971, foreign had become an inseparable part of Taiwan's foreign policy to earn diplomatic support to counter the isolation caused by its political situation and to expand Taiwan's international space. This strategy had worked well until China overran Taiwan in economic strength. In the meantime, with the democratization process, the general public started to cast doubts on the government's practices of dollar diplomacy and the effectiveness of them to sustain Taiwan's bilateral relationships with its diplomatic allies.

Secondly, when it comes to Ma Ying-jeou's presidency, his foreign aid policy making is proved to be influenced by both international and domestic pressures that urged the government to improve its negative foreign aid image. By applying the Two-Level Game theory, this paper finds that the international constraint lies at the

serious condemnation on the Taiwanese government's practices of using foreign aid to engage in activities, such as bribing political leaders in recipient countries and influencing foreign elections with its aid donation. This negative reputation also affects the domestic opinion as the majority of Taiwanese refuse to accept the policy of dollar diplomacy. This discontent has been captured by the political parties along with their proposed foreign policy and position towards China through the presidential elections. Ma Ying-jeou and his party's strategy to capture the "win-sets" of improving the image of Taiwanese aid is the different idea from his predecessors to make truce with China and to practice foreign aid more carefully and to less tolerate allied governments' unreasonable requests. This policy shift has promised his government an improved reputation and more secured donor-recipient relationships.

Third finding of this paper is that, although both international and domestic factors have influenced Ma Ying-jeou's foreign aid policy, unlike the agreed objective of improving Taiwanese aid, the two levels disagreed on the size of Taiwan's foreign aid, and this influenced Ma Ying-jeou's decision to adjust aid allocations and enhance his government's public diplomacy on Taiwanese aid. The international community pressured the government to contribute more to the developing world and to adopt universal guidelines and doctrines proposed by major aid donors. Interestingly, this paper finds that the political parties sometimes adopted contradictory narratives when they were in opposition as an attempt to alienate themselves from other parties. On the other hand, the general public, affected by negative practices of dollar diplomacy, wanted the government to reduce national budget on foreign aid. Under consideration of the contradictory opinions of international and domestic actors, Ma Ying-jeou's policy choices were to reduce

overall aid budget while allocate more aid to multilateral aid agencies and humanitarian work. Moreover, he enhanced the government's public diplomacy by re-categorizing its aid programs to meet with the international development norms and by emphasizing the "Taiwan experience" to justify its domestic audience. These policies managed to balance the pressures from both levels and achieved intended the government's intended outcomes.

Based on the findings of this paper, several implications on the future policy making can be provided. Firstly, whether Ma Ying-jeou's policy is sustainable remains to be seen. Ma's foreign aid policy appears to work in maintaining the diplomatic relationships and elevating Taiwan's international reputation during his terms. However, would the official relationships with allies be able to sustain if either China or Taiwan unilaterally breaks the truce in the future? Considering the different positions between KMT and DPP, it is not entirely unlikely that the succeeded Tsai Ing-wen and her party DPP would adopt a different, even more aggressive Cross-Strait policy, as previous DPP leader Chen Shui-bian did. China may also shift its policy accordingly if the DPP leader refuses to make concessions on the One-China policy. In fact, the de-recognition of Gambia at the end of Ma's presidency could serve as an example. Some critiques in Taiwan believe that this was a warning to the successive DPP government to maintain the status quo across the Taiwan strait. Foreign aid policy proposed during Ma Ying-jeou's administration could sustain the future donor-recipient relationships deserves further discussion.

Secondly, how should the government satisfy its domestic constituents, if the truce with China is no longer feasible? Ma Ying-jeou managed to elevate Taiwan's international reputation and adjust its foreign aid budget to satisfy both international

and domestic criticism. If the Chinese government resumes aid competition with Taiwan in the future, it is unlikely that the Taiwanese government would react with the same strategy, considering both the domestic constraints on foreign aid budget and the much larger size of Chinese aid. Compared to the democratized Taiwan, it is also easier for the Chinese leaders to propose large aid projects that fit with the recipient governments' needs for the Chinese leaders face smaller domestic constraints in contrast to Taiwan. In light of this, it is probably better for the Taiwanese policy-makers to think about what is the future of its foreign aid policy. Since aid competition is no longer a desirable option, maybe it is time to actually think about the real development needs and adjust its future foreign aid programs accordingly.

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Abstract in Korean

국문초록

마잉주의 대외원조 정책: 양면 게임 분석

특수한 양안 관계 분쟁 상황에서 대만의 대외원조 정책은 국제 사회에서의 정당성을 확립하기 위해 대만정부가 수원국으로부터 외교적 지원을 교환하기 위해 필요한 수단이 되었다. 이러한 관행은 대만 원조정책에 "달러 외교" 또는 "수표 외교"라는 부정적인 이미지를 부여한다. 2008 년 마잉주 (Ma Ying-jeou)의 대통령 당선 이후, 이전과 다른 그의 대 중국 정책 선택은 대만의 대외 원조에 몇 가지 변화를 가져왔다. 이 논문은 양면 게임 (Two-Level Game)의 이론적 틀을 바탕으로 국제 및 국내 수준의 협상을 통한 정책 결정 과정을 검토한다. 양 단계 분석에서 국제 및 국내 행위자들은 대외원조 이미지의 개선에 대해 동의하지만 대외원조 예산에 대해서는 동의하지 않는다. 결과적으로, 마잉주의 대외원조 정책은 이러한 양 단계의 제약 조건에 균형을 잡는 과정에서 이전과는 다른 관행 및 결과를 제시한다.

주요어: 대외원조 정책, 대만, 마잉주, 양면 게임, 양안 관계

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