

MESOAMERICA

Volume 24, Number 1, January 2005

Dollar Diplomacy in Action: Taiwan in Central America

Although Taiwan and Central America are geographically situated at opposite sides of the Pacific Ocean, there is no mistaking Taiwanese influence within the seven Central American countries. Since '71, when Taiwan was replaced in the United Nations (UN) by mainland China, Taiwanese foreign policy has been dominated by efforts to capture enough diplomatic support to be readmitted to the UN and legitimize its status as a nation-state, independent from China.

In order to achieve these ambitions, the Taiwanese government has enacted a lavish foreign aid program comprised of large financial donations to small countries, in exchange for those countries' diplomatic recognition of Taiwan and not China. Currently only 26 countries recognize Taiwan rather than China, including 13 in Latin America and all seven Central American countries—where Taiwanese donations have been the subject of recent controversy.

Recently, there has been increased attention to Taiwan's donations in Central America, because funds donated by Taiwan businesses and the Taiwanese government have been linked to corruption scandals surrounding current and former presidents in Nicaragua, Costa Rica and Panama. However, Taiwanese officials continually maintain that their donations do not constitute any form of "dollar diplomacy". In response to corruption allegations surrounding the donations, Su Tseng-chang, the Secretary-General of the Taiwanese Presidential Office, testified, "on behalf of the Presidential Office that Taiwan never gave political donations or offered help to individuals." Notably, some Taiwanese government aid has benefited recipient countries in the form of donations for new bridges, convention centers, hospitals and educational programs. However, the absence of regulatory laws regarding Taiwanese donations to foreign political campaigns and the continued evidence that the donations lack Taiwanese governmental oversight and control has clouded Su's assertion. As a consequence, in many cases Taiwanese donations have created an environment of "dollar diplomacy" in which politicians from recipient countries have used Taiwan's regional conflict with China to their personal advantage, receiving million dollar campaign donations, all-expense-paid trips to Taipei and cash for their personal bank accounts and private foundations.

Dollar Diplomacy Case One: Donations to Presidential Elections

One of the biggest controversies surrounding Taiwanese donations to Central America has come from allegations that funds originating in Taiwan illegally helped finance various political campaigns within the region.

Costa Rica. While Costa Rican President Abel Pacheco was visiting Taiwan in Dec '03 to receive an honorary doctorate and a Taiwanese government commitment to donate \$25 million for the construction

of a new convention center in Costa Rica, Pacheco received some unwelcome news. A Costa Rican legislative investigative commission reported that Pacheco's successful '02 presidential campaign obtained \$500,000 in illegal campaign contributions wired from a government bank in Taiwan into one of Pacheco's Social Christian Unity Party (PUSC) campaign accounts in Panama. The donations included two checks: one totaling \$300,000 from the Sunshine Company and another for \$200,000 from the Pacific Company. Investigations have not revealed who is behind the Pacific and Sunshine donations, but some, including Costa Rica's Second Vice-President, Luis Fishman, speculate that the money came from the Taiwanese government. Meanwhile, the opposition National Liberation Party (PLC) confessed that Taiwan contributed \$300,000 to Rolando Araya Monge's '02 unsuccessful presidential campaign against Pacheco. The San José daily, *La Nación*, reported that the PUSC and PLC received a total \$2.3 million from Taiwan between '01 and '03.

These donations are in clear violation of Costa Rican electoral laws, which outlaw foreign campaign contributions and individual donations above \$20,000. However, while Pacheco's popularity has plummeted as a result of the scandal, it is unlikely he will be sanctioned for the violations, because Costa Rican electoral laws also dictate that only political parties can be punished for electoral crimes. Pacheco has responded to these reports by denying knowledge of the inner workings of his campaign finance committee, and by stating that foreign campaign donors have in no way influenced his decisions as president.

Nicaragua. In Oct '04, when the General Comptrollers Office (GCO) petitioned Congress to impeach President Enrique Bolaños, at the center of controversy were alleged illegal campaign contributions from Taiwan. Unlike Costa Rica, in Nicaragua candidates are allowed to accept foreign campaign donations; however, all contributions must be reported to the GCO, which is where the controversy surrounding Bolaños' campaign arises.

Alleging a Taiwanese financial connection to Bolaños' presidential bid during investigations of campaign financing, the general prosecutor reported that the Liberal Constitution Party (PLC), Bolaños' party during his presidential campaign, received \$4.9 million from Taiwanese sources. In response to these allegations, the spokesperson for Taiwanese Foreign Minister Michel Lu commented that Taiwan could not confirm the alleged donations. The Bolaños presidential campaign has also been accused of accepting a \$30,000 check of Taiwanese origin and neglecting to report it.

Regardless of the validity of the allegations against Bolaños and Taiwan, they are among the various factors that have currently left Bolaños' presidential power severely crippled.

Dollar Diplomacy Case Two: Donations to Private Foundations

The Costa Rican Foundation for Liberty and Human Rights. While Taiwan adamantly denies using any "dollar diplomacy" policies, its financial relationship with former Costa Rican President Miguel Ángel Rodríguez ('98-'02) suggests otherwise. In Nov '00, the Costa Rican Foundation for Liberty and Human Development, a private foundation created by Rodríguez and his associates, requested \$1.2 million for training seminars and conferences for high-ranking governmental officials. The government of Taiwan obliged by contributing two \$200,000 payments to the foundation between '01 and '02. However, according to the manager of Rodríguez' business operations, Rafael Sequeira Garza, the funds were deposited into the bank account of Inversiones Denisse, a Panamanian company owned by

Rodríguez, allowing the donation to be exempt from any governmental oversight or control in Costa Rica. Adding increased suspicion to the donations, Constantino Urcuyo, a former PUSC deputy and adviser to Rodríguez who was a co-founder of the foundation, admits that he “always believed the foundation had not begun to function.”

When Rodríguez’ term as president ended in ’02, his aspirations to campaign for the post of Secretary General of the Organization of American States (OAS) again provided him with political value in Taipei. Taiwan demonstrated its close financial ties with Rodríguez when the Friendship Company, another business with close relations to the Taiwanese government, deposited two \$500,000 payments, registered as “loans,” into the Inversiones Dennise bank account. The loans of \$1 million had no dates or conditions stipulating their repayment.

While Taiwanese financial support helped catapult Rodríguez into the OAS post, his term in office was truncated to two weeks when he was forced to resign as Secretary General after unrelated allegations of illicit enrichment and bribery arose against him in Costa Rica. With Rodríguez now in a Costa Rican prison awaiting trial, it appears Taiwan’s \$1 million investment in Rodríguez’ OAS bid failed to achieve its intended influence.

The Nicaraguan Democratic Foundation. Maintaining diplomatic relations with Nicaragua has never been cheap for Taiwan. Since ’90, Taiwan has donated more than \$1 billion to Nicaragua, officially stating that the aid is strictly for humanitarian purposes. While some of the donations have benefited Nicaragua’s civilian population—for example, \$7.2 million helped modernize and remodel the Port of Corinto—a large portion of the funds have been spent making the lives of government officials cozier. Taiwanese money built the \$3 million *Casa Presidencial* and the \$2 million foreign ministry building, paid for the \$1 million renovation of the National Assembly building, and financed \$200,000 for equipment and furniture upgrades in the Vice-President’s office.

Not surprisingly, during the corrupt tenure of President Arnold Alemán (’98-’02), Taiwan had to pay a high price for Nicaragua’s continued diplomatic support, donating a total of \$36.4 million and granting \$100.4 million in low-interest loans. Similar to the methods in which Costa Rica’s Miguel Ángel Rodríguez received Taiwanese money, Alemán petitioned Taiwan to donate aid into the Panamanian bank account of his private foundation, the Nicaraguan Democratic Foundation (FDN), the same foundation that Alemán used to launder more than \$100 million of state funds. Between ’00 and ’01, the FDN account received four deposits totaling over \$1.5 million, which originated from Taiwanese banks and businesses. Taiwan does not deny making these payments, but claims the funds were to be used for humanitarian purposes.

After the precedent set by both Alemán and Rodríguez for requesting aid to their private foundations, it comes as no surprise that Alemán’s predecessor, Enrique Bolaños, allegedly solicited the Taiwanese government for \$4 million to create a private foundation, called the Pro Human Rights Foundation, which, after the foreign affairs problems caused by the previous donations, Taiwan has yet to grant.

Fundación Mar del Sur. Similar to the donations received by Alemán and Rodríguez, during the administration of Panamanian President Mireya Moscoso (’99-’04), foreign aid to Panama from Taiwan was administered through the auspices of private foundations created by Moscoso’s high-ranking functionaries. At the center of controversy is \$45 million donated by the Taiwanese government to the

private foundation *Mar del Sur*, the majority of which was delegated to construction and renovation projects in three hospitals; \$6 million went to finance a children's museum, and \$8 million was used to install air conditioning in various governmental buildings.

Currently the Government Accounting Office is auditing the use of these donations to confirm that the funds, which had no governmental or public oversight, were not misused. According to lawyer and activist Guillermo Cochez who sued to make the records public, "Nobody knows the amount of money the government of Taiwan is giving, or even how it is being administered." To avoid being politically tarnished in connection with Taiwanese donations, current Panamanian President Martin Torrijos has vowed to administer Taiwanese aid only through transparent governmental agencies, not through private foundations.

Also causing controversy in both Taiwan and Panama are allegations that former President Moscoso accepted a \$1 million birthday check from Taiwanese President Chen Shui-bian. Opposition party rivals made the accusations as a critique of Chen's foreign policy. Both Chen and Moscoso have denied these allegations.

China's Rising Role and What the Future Holds

Recently Taiwan donated \$4.8 million to Costa Rica to be administered for various development and tourism projects. Yet these funds actually went into the paychecks of Costa Rica's 34 Foreign Ministry employees, illustrating the lack of supervision that plagues Taiwanese donations. Clearly, under the present circumstances, while Taiwan may have humanitarian intentions for its donations, it has no mechanisms to control how the aid is spent. The Taiwanese Minister of Foreign Affairs, Mark Chen, ceded that he could not comment "on how the governments [of Taiwan's allies] use the aid."

Without any control of how its foreign aid is being spent, Taiwan's policy of trading foreign aid for diplomatic support appears to be having mixed results. Still, the donations have thus far succeeded in guaranteeing diplomatic support and extending favorable influence towards Taiwanese interests from Central American countries. For example, Taiwan's influence is demonstrated every time Costa Ricans watch Taiwanese fishing boats illegally poach sharks (shark-fin soup is a delicacy in Taiwan) in Costa Rican waters with no governmental or legal intervention. However, as evidenced from Taiwanese donations to Costa Rica, Nicaragua and Panama, the continued scandals and corruption surrounding the donations have cast a negative shadow not only on Taiwan's diplomatic intentions, but also on the politicians who are associated with the donations.

While the current status of Taiwan's foreign aid policy has been tarnished by corruption, it has no plans to cease its foreign aid program and has allocated \$262 million for foreign aid in its '05 budget. However, China's increasing economic resources could essentially "outbid" Taiwan's future diplomatic efforts, as evidenced by the Dominican Republic's recent switch of support from Taiwan to China. The Dominican change in foreign policy came after China committed to giving the country \$100 million over the next five years.

Internally, Taiwan remains committed to the status-quo in regard to its relationship with China—favoring neither proclaiming outright independence nor unification. Yet, China's recent preparation to enact a law that would mandate a Chinese military invasion of Taiwan should Taiwan officially declare

independence from China demonstrates China's unrelenting intentions of reclaiming Taiwan. Under these circumstances, combined with the negative connotations associated with Taiwanese donations, it may be only a matter of time before China becomes the newest diplomatic ally in Central America.

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