

**TO APPEAR IN**

***The Journal of Chinese Political Science***

**(2007), volume 12, number 2, pages 125-146.**

**The Struggle for Recognition:  
Diplomatic Competition between China and  
Taiwan in Oceania<sup>1</sup>**

**ANTHONY VAN FOSSEN\***

*The PRC and Taiwan are competing to gain diplomatic recognition from Pacific Islands states, a number of which recognise Taiwan and serve as a barrier to its international isolation. Since much of Oceania is in Australia's sphere of influence, this struggle has often involved Canberra. This paper focuses on the intensifying conflict--with conclusions about the local political economic situations of the countries in Oceania that are most likely to switch recognition, the dilemmas that the issue poses for Australia and its alliance with the US, and the game theory of these auctions of diplomatic recognition. The rental of recognition is analysed as a "sovereignty business" in which some Pacific Islands states engage—similar to the offshore financial centres which are prevalent in the region.*

*Key words: China-Taiwan Relations; Pacific Islands; Australian Foreign Policy; Diplomatic Recognition; Auctions*

\*Anthony van Fossen is Senior Lecturer in Social Sciences in the School of Arts, Media and Culture and member of the Griffith Asia Institute at Griffith University. He has written extensively about the Pacific Islands, particularly in relation to its offshore financial centres and 'sovereignty businesses'. His most recent book is *South Pacific Futures: Oceania Toward 2050* (Brisbane: Foundation for Development Cooperation, 2005), the first comprehensive survey of expert views of the future of the region.

Taiwan has a problem. The Pacific Islands within Australia's sphere of influence are a partial solution. Taiwan's problem of diplomatic isolation has been stubbornly persistent for over three decades, and involves international perceptions of its relationship to the People's Republic of China (PRC)<sup>2</sup>. Taiwan is recognised by only twenty-five states (six of them in Oceania<sup>3</sup>--Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, and Tuvalu) and Taiwan is largely disconnected from the official global diplomatic system. This limits Taiwan's ability to present its point of view to the global media and makes it seem far less significant than it actually is<sup>4</sup>. Australia is one of many countries that are friendly toward Taiwan and freely trade and culturally interact with it, yet Canberra subscribes to Beijing's "one China" policy that casts doubts over Taiwan's long-term viability as an independent polity. When Taipei seeks greater security through obtaining diplomatic recognition from Pacific Islands states, Canberra may perceive it as an intruder into its own sphere of influence.

This article considers the contemporary struggle for recognition between Taiwan and the PRC in Oceania. It argues that this cannot be fully or properly understood without considering the significant role Australia plays in shaping the region, especially its large sphere of influence in the South Pacific. This became particularly clear in the Papua New Guinea crisis of 1999, which we shall consider below. Neither Biddick<sup>5</sup> nor Pheyey<sup>6</sup> considers Australia's substantial stakes in Oceania in the Taiwan-China conflict in their otherwise commendable work. This article provides both an overview of the

contemporary situation and the historical development of the struggle for diplomatic recognition between Taiwan and the PRC in Oceania, as well as a unique focus on Australia's important role in this South Pacific drama. It concludes by reconceptualising these issues in terms of auctions and two influential paradigms from game theory.

Diplomatic recognition of Taiwan is less a matter of unconstrained decisions on the part of individual countries as an act of defiance of a global rule. Although this situation may change, at present the PRC has managed to institutionalise a fundamental principle which the United Nations (UN) has accepted for some time. This basic precept (despite some legalistic ambiguities and loopholes) is that there is only one China (represented by the PRC) and that Taiwan is part of it.

In 1971, as Pacific Islands independence movements were gathering momentum, the UN expelled the Republic of China (ROC) and repudiated its assertion of statehood. The ROC was not asked to reform its polity so as to be acceptable for readmission. The UN simply regarded the ROC as having come to an end. The world body declared its intention to never again address the Taiwan question, and transformed it into a domestic matter to be resolved by the PRC. In 1972 Australia reflected the general view and recognised Beijing--encouraging newly independent Pacific Islands states to do likewise.

The PRC is firmly resolved to prevent the Taiwan issue from re-emerging at the UN, where friends of Taipei such as the Solomon Islands persist in raising it--even to the point of initiating annual debates since 1993 on whether the ROC should be readmitted to the

UN. Most countries (including Australia) show no interest in reopening the subject and Taiwan's bid has been blocked each year by the General Assembly's steering committee. The matter is seen as irrelevant to most countries' foreign policy objectives. They observe the PRC's size, power and forcefulness on the Taiwan question and they see no good reason to antagonise Beijing. The strongly anti-communist kingdom of Tonga switched recognition from the ROC to the PRC in 1998 for economic reasons<sup>7</sup> and because it feared that Beijing (as a member of the Security Council) would veto its application to join the UN if it retained diplomatic relations with Taipei. In 1999 and 2000 Nauru and Tuvalu were apprehensive that their continuing loyalty to Taiwan would undermine their attempts to join the UN. The PRC's Security Council representative abstained, rather than vetoing, their General Assembly memberships after lobbying by Pacific Islands states. Beijing expressed the view that Nauru and Tuvalu would eventually switch recognition to the PRC. A visit to the PRC by Tuvalu's Prime Minister Saufatu Sopoanga in 2004, however, was enough to convince pro-Taiwan parliamentarians in Funafuti to pass a no-confidence motion to oust him.

One of Taiwan's goals is overcoming its severe diplomatic isolation. Barriers to recognition are other countries' perceptions of power in international political economy and the PRC's sense that independent statehood for Taiwan threatens to legitimate secession for non-Han areas such as Tibet, Mongolia, and Xinjiang. The power elite in the PRC feels that it must win the battle for Taiwan and its increasing uncertainty about the outcome makes it more determined<sup>8</sup>. So far, international power politics have largely determined most countries' policies toward the Taiwan question. The increasing

attractiveness of Taiwan's domestic policies and continual criticism of human rights and other abuses in the PRC have not (yet) created a powerful constituency in any core state for recognising Taipei. There has not been any popular movement in Australia to challenge the realist assessments of Canberra in relation to Taiwan--as there was in the case of East Timor. The ROC's quest for wider recognition of its claims to statehood has been particularly oriented toward areas where it is most likely to succeed--that is, it has disproportionately concentrated on peripheral states, particularly in Oceania, which holds about 7% of UN votes.

Beijing prefers the old established question (Which government represents all of China?) and it has succeeded in having most of the world organise its China policy around this. Until it gave up all claims on the mainland in 1991 the ROC defined its competition with the PRC in these terms--claiming to represent all of China, but to be temporarily headquartered on Taiwan. Political democracy in the ROC has led to increasing demands for Taiwan's independence, with the ever-clearer message that Beijing's claims on the Islands are illegitimate. In July 1999 President Lee Teng-hui announced that relations between Taiwan and the mainland should be on a "state-to-state" basis--calling for the international community to re-examine Taiwan's status<sup>9</sup>. In March 2000 the presidential election was won by Chen Shui-bian, whose Democratic Progressive Party has traditionally favoured Taiwan independence, although more recently it has implied that there is no need for a formal declaration of independence. The sense of a separate national identity has been strengthening for a number of years on Taiwan<sup>10</sup> and there has been a growing sense among Taiwanese that their country's position in international

relations is unjust and insulting, and should be normalised. Movements favouring separatism and calling for an end to international ostracism have intensified since Taiwan has fully satisfied global norms in many areas where the PRC is still considered unsatisfactory. This includes the achievement of a wide range of human rights and political democracy, encouraging the emergence of Taiwanese nationalist sentiments.

These aspirations are being blocked by the implacable opposition of Beijing, increasingly nationalist, as it has become less communist. The PRC will not tolerate independence for Taiwan, as indicated by the militarism and threats that it displays before elections in the ROC. These demonstrations of force trouble the world with concerns about possible cataclysmic outcomes and discourage foreign states from recognising an independent Taiwan. Taipei's experiment with formal dual recognition is no more successful today than it was when it started with the Caribbean microstate of Grenada recognising both Chinas in July 1989. Then, as with the similar attempt at dual recognition by the Marshall Islands nine years later, Beijing reacted quickly by severing diplomatic relations with the country. Taiwan's informal means of achieving similar but lesser objectives have been more promising.

The obstacles to a fundamental alteration of Taiwan's position in the international system are obvious when one considers that the ROC has attracted diplomatic recognition from less than 15% (25) of the world's countries. Nevertheless all but a few states maintain de facto relations (particularly economic relations) and Taiwan has trade missions in some 60 countries that do not recognise it, including Fiji and Papua New Guinea as well

as in Guam and Honolulu (both parts of the US). Trade missions do not imply recognition. The principle of elevating the ROC to the highest point of dignity short of recognition has been elaborated in the US Taiwan Relations Act of 1979, which treats Taiwan as a state and a government by acknowledging the ROC's laws, its treaty-making capacities and reciprocal privileges and immunities as well as requiring the US to make available military equipment for its self-defence. Two of the three Pacific Islands countries within America's sphere of influence (Palau and the Marshall Islands) recognise Taipei; the Federated States of Micronesia has diplomatic relations with Beijing.

Taiwan enjoys substantive, semi-formal, but not full recognition from most of the world's states, which tend to treat it (in accordance with the PRC's view) as a province of China, not unlike Hong Kong or Macau. The ROC maintains a large, but somewhat narrow, treaty network; conclusion of a treaty does not imply formal recognition. Taiwan belongs to only a few IGOs--the most important being the World Trade Organization and the Asian Development Bank, where Pacific Islands votes are highly significant, the Asia Pacific Economic Cooperation group, and the Olympic movement, where it is represented as "Chinese Taipei". The ROC is not a member of any UN organisation. Curiously Beijing makes almost no attempt to curtail Taiwan's economic (trade and investment) ties.

This is in spite of the fact that trade and aid are the keys to the ROC's dollar diplomacy<sup>11</sup>. Travel is almost unrestricted, although this does not apply to government officials. In

1998 Premier Vincent Siew was reportedly confined to the Brisbane Airport (meeting with Labor Opposition Senator Gareth Evans but no Howard government officials) in transit to Tonga and the Solomon Islands, both of which recognised Taiwan, and to Fiji, where the PRC protested when government officials met him. In 2005 China strongly objected to President Chen Shui-bian arriving on a surprise “transit stop” in Fiji and meeting important political figures there after he had visited the Marshall Islands, Kiribati and Tuvalu, which had diplomatic relations with Taipei. Outside the cases of ROC official visits, Beijing makes few attempts to disrupt Taiwanese tourism or the Islands’ sea links. Pressures against Taiwan’s air carriers are more severe and in the late 1990s the PRC prevented a Macau airline serving Taiwan and its diplomatic ally Palau. Links in art and entertainment are largely unaffected. Educational ties are almost completely unrestricted. This pattern is consistent with the PRC’s view that Taiwan will follow the paths of Hong Kong and Macau and should be treated in a similar fashion prior to incorporation.

Australia has been steadily building trade ties with Taiwan. In the early 1990s it upgraded relations with Taiwan, to which Labor Foreign Minister Senator Gareth Evans seemed quite close--incurring the displeasure of Beijing. Australia and other countries that recognise Beijing but are friendly with Taipei are increasingly keen to see Taiwan granted a “veto power” over when and how it is integrated into the PRC<sup>12</sup>. Australia, like most countries of the world, assumes Taiwan will sooner or later fall under the control of Beijing--an outlook that does not inordinately disturb strategists at the Department of Foreign Affairs and Trade in Canberra. For them, it is a matter of realism, not morality.

There is widespread apprehension that any attempt by Taiwan to turn its de facto independence into a formal legal declaration will bring military retaliation from the mainland and a grave threat to world peace<sup>13</sup>. Over the longer term growing class conflict, disunity and weakness on the mainland<sup>14</sup> or a western policy of containment toward Beijing may change this situation and strengthen Taiwan's chances of formal recognition. In the near term, Australia is concerned by any signs that the Taipei-Beijing struggle may create unwelcome disturbances within its own sphere of influence in Oceania.

#### **AUSTRALIA'S RELATIONS WITH THE PACIFIC ISLANDS**

The Second World War had a deeper effect on the Pacific Islands and Australia's relations with them than any other single event in modern history. Military involvement in all corners of Oceania (with Australia being heavily committed in the southwest Pacific) created a much sharper sense of the importance of the Islands and their collective identity as a region. Recognition by the Australian government of this increasing regionalisation and Australia's desire to become its post-war leader were obvious in the Canberra Pact of 1944 when Australia and New Zealand proposed the creation of the first intergovernmental regional organisation. The South Pacific Commission (SPC) was established in 1947. The SPC (now called the Pacific Community) and most other important regional organisations continue to reflect Australian definitions of the region, which also mirror the interests of New Zealand and the US. Within the SPC the interests and policies of other metropolitan members (the Netherlands until Indonesia absorbed

West Papua in 1962, Britain until its recent withdrawal and France) are noted but also questioned.

The definition of the region and the roles of metropolitan powers continue to reflect the implications of post-World War II geopolitics. Melanesia-Polynesia-Anglonesia<sup>15</sup> is represented as an Australian-New Zealand “lake” with the French being on the periphery. Micronesia<sup>16</sup>, after the departure of the Japanese, mostly entered the American sphere of influence, where it remains today, although Australia is the principal metropolitan influence over the Kiribati (the former Gilbert Islands) and Nauru. The policies of Canberra and Washington are usually closely aligned and very influential in Oceania—although Australia is far more visible in regional affairs.

The SPC started as an organisation coordinating the economic, health, and social policies of the colonial powers which were its founding members. Mostly on French insistence, the SPC does not engage in what are deemed to be “political” activities. The SPC brought Islands people together for the first time and created a viable regional identity. However, the SPC’s caveat on “politics” did not allow it to be a vehicle for decolonisation. Australia was the most inclined to grant political independence to its Pacific Islands colonies, although the UK and New Zealand also took a generally favourable view of movements toward self-determination. The USA and especially France tended to be far more reluctant to decolonise in the Pacific.

Decolonisation since the 1960s has created a large number of microstates. Regionalism has greatly strengthened, as a growing number of regional organisations have undertaken tasks formerly done by the colonial powers but which the new states are not large enough to perform. Australia and other metropolitan powers continue to provide heavy funding to regional organisations to conserve the system of small state sovereignty. Regional organisations permit Pacific Islands states to meet the obligations of statehood by sharing regional facilities in education, training, research, communications, and transportation. Articulating agreed regional positions also gives the Islands a stronger voice in international forums. Nevertheless the substantial growth in bilateral foreign aid from Australia and other sources at the same time has tended to subvert the development of multilateral regional cooperation in many areas.

Growing dissatisfaction with the SPC's colonial character led in 1971 to independent or self-governing Islands states joining Australia and New Zealand in becoming members of the newly-formed South Pacific Forum (SPF), renamed the Pacific Islands Forum in 1999<sup>17</sup>. The SPF quickly became the foremost regional organisation--with meetings attended by senior government representatives, making its proclamations powerful expressions of the policies of member governments. Australia and New Zealand are the only metropolitan governments holding full membership and they contribute the bulk of its funding. SPF set a pattern by establishing its secretariat in Suva, Fiji's capital, which then became the centre of most new regional organisations created with the advent of independence and self-government.

Conflicts within regional organisations between Melanesia, on one hand, and Polynesia and Micronesia, on the other hand, reflect the more self-sufficient, Third Worldist, and sometimes anti-Australian qualities of Melanesian states, which sometimes portray regionalism (dominated by a majority of very small Polynesian and Micronesian states) as an obstacle to their national policies.

While Pacific Islands states expect Australia or the US to protect their sovereignty in an emergency, there is discomfort about their dependency on Canberra or Washington and a desire for a wider range of aid and trade partners, especially from Asian countries, which they have become closer to as they have been combined in the “Asia-Pacific” rubric under which intergovernmental organisations have placed them since the 1970s. Australia fears that requests from Asian countries for membership in regional organisations have significant implications for the identity and the future of the region. For many Pacific Islands countries, expanding links with Asia is a matter of urgency<sup>18</sup>. The most interested Asian country is almost always Taiwan.

### **TAIWAN’S RELATIONS WITH THE PACIFIC ISLANDS**

Oceania is an important arena for rivalry between Taipei and Beijing. In other regions the PRC has largely been victorious. Only in Africa<sup>19</sup>, the Caribbean, Central America, and the Pacific Islands is Taiwan a significant contender for recognition. Diplomatic efforts are principally aimed at the political elite. Local Chinese communities (particularly in Fiji, Kiribati, the Marshall Islands, Tonga, Palau, the Solomon Islands, and Papua New Guinea) have some influence.

The rivalry confers gains as well as disadvantages on Pacific Islands countries. The gains comprise political prominence and foreign aid. Most Pacific Islands countries rely heavily on economic assistance. While trade and aid are parts of both the ROC's and the PRC's inducements to Pacific Islands countries, Beijing's offers of military equipment, its third strategic element in gaining recognition from many developing countries in Africa, Asia, and Latin America, has little or no appeal to most microstates in Oceania and its status as a major military power leads to some disquiet.

The main shortcoming of the PRC-ROC competition in Oceania is the insertion of a foreign predicament that may produce economic manipulation, intervention in internal politics, or dissension (for example, within Pacific Islands regional organisations). An instance of this introduced tension is the Pacific Islands Forum, where Beijing and Taipei became dialogue partners in 1989 and 1992 respectively--leading to a sequence of attempts by the PRC to exclude or downgrade Taiwan's participation. The principal issue for the ROC and PRC is diplomatic recognition. Economic concerns (fishing, seabed resources, logging) are subordinate.

The wider geostrategic environment is significant for the PRC. Since 1989, Beijing has taken a much harder line toward Taipei than it did during the previous decade and this has intensified diplomatic competition in Oceania between the two governments. The Chinese Communist Party became more stridently nationalist, militaristic and aggressive toward Taiwan's growing independence movement. It was increasingly concerned that

Taiwan's international profile was not receding as fast as it had anticipated (as growing numbers of countries, albeit generally microstates, recognised the ROC), and that post-Cold War normative changes were threatening to add legitimacy to Taiwan's claims to democratic self-determination<sup>20</sup>.

Some activities of Taiwan and the mainland damage their reputations in Oceania. The foremost image problem for Taipei comes from overfishing by its country's vessels, its initial resistance to the ban on driftnets effected by the South Pacific Forum in 1989, and the low prices it pays to Pacific Islands countries for their marine resources--a striking example being the price of US\$8,000 per tuna boat in September 2000 opposed to the US\$150,000 per vessel the prostrate Solomon Islands government had asked in May 1999. Beijing's most immediate problem is its missile-testing programme in the Pacific. This alienated the Solomon Islands and Tuvalu shortly after their independence and influenced their decisions to recognise Taiwan, but it also solidified the PRC's ties with Kiribati, where it built a civilian rocket and satellite launching and tracking facility in 1997, until this led to a domestic political conflict, a switch of recognition to Taipei and dismantling the base in 2003. There is a growing, but still subdued, disquiet in Oceania over the PRC's human rights abuses, oppression of the indigenous Tibetans, absence of political democracy, and its argument (expressed outside the region) that it deserves recognition because it is a macrostate while Taiwan is, relatively speaking, an Island microstate. Nevertheless, both countries are generally seen as friendly to the aspirations of Pacific Islands countries<sup>21</sup>.

In 1971 Tonga recognised Taipei and Fiji recognised Beijing, but also allowed the establishment of a Taiwan trade mission in the capital of Suva, which was upgraded in 1988. In 1975 Papua New Guinea (PNG) recognised the PRC, as did Western Samoa, a country that had established diplomatic links with Taiwan in 1972. In 1976 Nauru recognised Taiwan. In 1980 the Solomon Islands and Tuvalu opted for the ROC, while Vanuatu and Kiribati chose the PRC. In 1991 the Marshall Islands and the Federated States of Micronesia recognised Beijing. In the late 1990s competition and instability intensified: Tonga (Taiwan's longest standing Pacific Islands ally) switched to the PRC in October 1998 and Nauru severed diplomatic relations with Taiwan on 23 July 2002 (before moving back to the ROC in May 2005). The Marshall Islands lost its ties with the mainland by recognising Taiwan on 20 November 1998, when its government faced imminent electoral defeat. In 1994 Palau created its strong ties with Taipei, which led to official recognition in December 1999--a move reportedly opposed by the US, with which Palau is in free association<sup>22</sup>. Palau, which is geographically closer to Taiwan than any of its other diplomatic allies, also enjoys a much higher level of private sector investment and people-to-people contacts (primarily through heavy and growing Taiwanese tourist flows to the archipelago). Palau illustrates how recognition from countries in the Pacific Islands can mean considerably more for Taiwan (in terms of genuine and sustained interaction as well as leverage in regional organisations) than recognition from relatively remote countries in Latin America, the Caribbean, and Africa.

More Pacific Islands countries are likely to become independent in future years--providing additional opportunities for Taiwan<sup>23</sup>, although Beijing has a growing ability to

outbid Taipei in “dollar diplomacy”. In Palau (where the ROC provides about a third of all foreign investment) China’s strategy has been to form alliances with opposition politicians (sometimes raising ethical issues) and (in mid-2005) to propose a mega-resort and retirement complex with a minimum initial investment of US\$400m--so large that it would dominate the area around the country’s new capital in Melekeok, create opportunities for immigration of large numbers of settlers from the PRC, and provide employment for over 10% of Palau’s workforce. So far, Palau retains diplomatic ties with the ROC.

In the South Pacific the intensifying rivalry between the PRC and ROC draws the interest of other Asian countries to the region and disturbs Australia. It threatens Australian hegemony in the South Pacific. Australia’s position in the region has also been jeopardised by its endorsement of an increasingly austere economic rationalist agenda for Pacific Islands countries since the mid-1990s. Furthermore, John Howard and his government are often seen as unsympathetic, patronising or worse by many Pacific Islands leaders. Howard displayed arrogance and petulance at the first South Pacific Forum meeting which he attended and (unlike his predecessors Bob Hawke and Paul Keating, who enjoyed good relations with the region) Howard has missed more than one annual Forum meeting. Although these obstacles lower Australia’s standing in the region, the most significant threat came in 1999 from Taiwan.

This challenged Australia’s primary role in the Pacific Islands country with which it has the closest ties--PNG. In mid-1999 the PNG Prime Minister Bill Skate was desperate to

survive as Prime Minister. A devastating drought, dramatic tsunami, rampant corruption, and the continuing closure of the large mine on Bougainville (where secessionist rebels in 1990 had proclaimed imminent recognition from Taipei) had created an unfavourable atmosphere. The country's sovereign debt was rated BB (below average) by Standard and Poor's. Skate wanted to avoid stringent economic austerity programmes proposed by the International Monetary Fund. Like all the PNG Prime Ministers before him, he also sought to lessen the country's heavy dependence on Australian aid--totalling A\$330,000,000 (US\$205,000,000) for 1999 and increasingly taking the form of project (rather than budget) aid over which the PNG government had comparatively little control.

Skate was hoping to save his government from defeat through a confidential deal with Taiwan that would provide US\$2.35b (A\$3.8b) of aid, soft loans and investment in timber and fishing in return for diplomatic recognition. Skate and his Foreign Minister Roy Yaki made a secret trip to Taipei and signed the deal there on 5 July 1999. Australia's Foreign Minister Alexander Downer was infuriated by the news and left for Beijing. The most significant tensions in the relations between Australia and the PRC have come from issues relating to Taiwan<sup>24</sup>, including Taiwan's role in Oceania. Australia grew increasingly concerned about the impact of PRC-ROC rivalry on the South Pacific Forum and regionalism. Canberra, which was intent on the IMF influencing PNG's economic restructuring, pressured Port Moresby to rescind the deal. Taiwan, in turn, considered a boycott of Australian imports, but found that it was too dependent on them (with no reliable alternative source) to launch any effective action.

Members of the Skate government called Australian pressure a violation of PNG's sovereignty.

Skate resigned as Prime Minister on 7 July before a no confidence vote in PNG's parliament, which seven days later elected a new Prime Minister--Mekere Morauta, an Australian-educated businessman and former central banker who was often considered to be Canberra's candidate. Morauta quickly rescinded the diplomatic recognition of Taiwan, although he emphasised the importance of trade links. Beijing, which had decided to wait rather than break relations after the Skate deal, maintained its diplomatic presence in Port Moresby--its embassy being directly across the street from Taiwan's trade mission. Morauta called in the IMF and World Bank.

Alexander Downer and Australia's Treasurer Peter Costello soon visited Morauta, to pledge further aid and Canberra's support. Beijing delivered the US\$10m (A\$16m) in aid that it had pledged before the Taiwan deal. The PRC seemed quite happy with the leverage that Australia had exercised over PNG. In November 2000, David Irvine, Australia's High Commissioner in Port Moresby, was named its new ambassador to Beijing. Following Taiwan's overtures to PNG in 1999 the PRC increased its aid significantly. In December 2003 Prime Minister Michael Somare threatened to refuse Australian aid if Canberra continued to insist on weakening the sovereignty of his country by demanding reforms in governance; he claimed that China would be glad to make up any shortfall.

Beijing attempted to subvert Taiwan's role in the Solomon Islands by establishing relations on a province-to-province basis (in a country beset by civil conflict). On 10 October 2000 the Solomon Islands Foreign Minister Danny Philip created a crisis in relations with Taiwan by failing to attend the ROC's National Day celebrations and the opening of the Solomon Islands embassy in Taipei. Instead, he met with PRC officials in Hong Kong--apparently about financial aid for national reconstruction to meet the destitute national government's commitments under the peace agreement recently signed in Townsville in northern Queensland. Some Solomon Islands officials felt that the prospects for peace would be improved by meeting compensation claims of over US\$100m--claims made by people, mostly Malaitans, who had lost property on Guadalcanal during the recent conflicts. Philip reportedly did not receive a favourable reaction from Taipei, which had contributed US\$10m to Honiara in the previous year, when he asked Taiwan for US\$60m to US\$200m in aid. Some Taiwan legislators expressed outrage at the Solomons' ungratefulness and the humiliation dealt to Taipei--reigniting an always simmering debate in Taiwan on its foreign aid-based diplomacy. A few weeks later Prime Minister Manasseh Sogavare came to apologise and repair relations with the ROC--missing the Pacific Islands Forum summit in Kiribati. Sogavare blamed an Australian intermediary for inducing Philip to make contact with the PRC and break his commitments to Taiwan, although some within the Australian government saw Taiwan as playing a constructive role in the redevelopment of the Solomons.

Sogavare returned to the Prime Ministership in April 2006 following a few years in the political wilderness—after the most dramatic events arising from the Beijing-Taipei

rivalry in the Solomon Islands. On 18 and 19 April 2006 thousands of looters burned down over 80% of the buildings in Honiara's Chinese district, angered by the parliamentarians' decision to elect the unpopular and reportedly corrupt Snyder Rini as Prime Minister. The rioters contended that Taiwan had paid lawmakers to vote for Rini (reportedly at the going rate of about US\$5,000 a vote), even though the popular vote in the recent 5 April election had swung decisively against his coalition (including then-Prime Minister Sir Allan Kemakeza and MP Tommy Chan), who were accused of having received corrupt payments to favour Taiwan and local Chinese business interests. The PRC was reported to be financially supporting an opposition political party and the ROC was said to be maintaining a secret slush fund that distributed about US\$7m a year to friendly politicians. Australia's Foreign Minister Alexander Downer accused Taiwan of funding corruption, which it denied. Australia sent more troops and police to restore order to the Solomons, where Canberra had already been maintaining a sizeable peacekeeping force since 2003. Over three hundred of the one thousand ethnically Chinese residents of Honiara left the country. Eight days later Rini resigned as Prime Minister—clearing the way for the more respectable Sogavere, who, contrary to some earlier rumours, maintained diplomatic relations with Taipei. A common perception was that the Taipei-Beijing rivalry was helping outsiders to take over the political processes of the Solomons.

The situation in Nauru also illustrates the auction that is happening in Oceania. Nauru has changed its allegiance according to which state provides more money. On 21 July 2002 Nauru switched diplomatic relations to Beijing. This was perceived as particularly

humiliating to Taiwan's President Chen Shui-bian since this was the day of his election to the presidency of the Democratic Progressive Party and Nauru had been a long-time ally—having recognised Taipei in May 1980. In what was generally regarded as his response to China's actions in Nauru, Chen infuriated officials in Beijing and disturbed military strategists around the world by calling for a referendum on Taiwan's independence.

Nauru's President Rene Harris had expressed displeasure at alleged Taiwanese interference in a local by-election, that was won by one of his ministers, and this irritation was compounded by Taiwan's apparent indifference to his country's growing financial problems as it neared bankruptcy. Harris had requested a five-fold increase in Taipei's annual aid (to US\$10m). When this was refused, he approached the PRC, which reportedly offered aid of US\$60m and immediate debt relief of US\$77m. Nauru accepted this package in return for recognising Beijing, despite the reported opposition of three in Harris's five-member cabinet. Nauru opened an embassy in Beijing, which was to be used by diplomatic staff affiliated with US intelligence organisations and involved in a proposed (but never completed) operation to provide Nauru passports to North Korean defectors<sup>25</sup>. Six months after being recognised by Nauru, the PRC was allegedly pressured to provide loans to prevent it from reverting to the ROC. Over the longer term Beijing did not provide enough—and in May 2005 Nauru's new President Ludwig Scotty and his government recognised Taiwan in return for the ROC keeping Air Nauru in the sky by guaranteeing payment of the outstanding debt of US\$13.5m on its only jet. Since

Nauru is destitute and of little strategic significance today, Australia did not actively discourage the auction.

In another Micronesian country that uses the Australian dollar as its national currency and has strong ties with Canberra, the situation was more complicated—Australia finding that its commitment to the “One China” policy prevailed over its alliance with the US. Kiribati, which had diplomatic relations with the PRC since 1980 (shortly after its independence from Britain), recognised Taiwan on 7 November 2003 after the July election of the part-ethnic Chinese President Anote Tong. Tong’s campaign had raised questions about Beijing’s excessive influence over domestic affairs (including why the PRC’s embassy was the largest building in the country). A key issue was the refusal of President Teburoro Tito to make public the agreement that the government had signed with the PRC concerning the satellite monitoring installation which the Chinese military had built in 1997 on Temwaiku on Bokiri Islet on the capital atoll of Tarawa and which was crucial to Beijing’s rapidly developing space programme. In 2002 two American Navy F-16 fighter jets buzzed the Chinese base in Kiribati—indicating definite suspicions about its purpose.

Tong’s party claimed that one of the principal activities of the equatorial base was spying on the highly secretive US missile test site on Kwajalein Atoll, one thousand kilometres to the north in the Marshall Islands. Kwajalein is crucial to testing Washington’s “Star Wars” missile defence system. China sees “Star Wars” as threatening its own nuclear deterrence and it has warned that it will increase its rather slight nuclear arsenal by at

least ten times if even the most minimal version of this missile defence system is deployed. The placement of the “Star Wars” missile defence system in Taiwan could produce a major geopolitical crisis<sup>26</sup>. In 2004 and 2005 Beijing intensified attempts to persuade the Marshall Islands to switch diplomatic recognition away from Taipei. Both the PRC and ROC were accused of making payments of between US\$6,000 and US\$10,000 to individual politicians.

Allegations of corruption came from both sides. It was alleged that the PRC had made substantial financial contributions to Kiribati’s President Tito when he was in office. Beijing’s state-owned media responded that Taiwan gave more than US\$1m to Amote Tong and his party—enabling their election victory. President Tong denied receiving campaign contributions from Taiwan or any other foreign government, but his older brother, the parliamentary opposition leader Dr. Harry Tong, whom he had defeated in the presidential election, said that he had received substantial electoral funds from Taipei. Dr. Tong admitted that his own campaign had received US\$140,000 in cash from Taiwan and that he had signed a June 2003 memorandum promising to recognise the ROC if he were elected to the presidency.

Kiribati’s strategic significance was such that the PRC delayed breaking off diplomatic relations for much longer than usual and apparently had a role in organising a protest of hundreds of I-Kiribati against the government’s decision to recognise Taiwan. President Tong said that he had received death threats after his cabinet’s decision to recognise Taiwan. By the end of November 2003, the Chinese began burning files and dismantling

their base, soon stripping it bare and sending most of its contents back to the PRC. Recognition of Taiwan by Kiribati and President Tong's well-publicised visit to Taipei in February 2004 were seen as assisting Chen Shui-bian in his successful campaign to be re-elected president of the ROC the next month.

Taiwan's direct aid to Kiribati for 2004 was about A\$10m (US\$8m), approximately five times higher than the PRC's aid package for 2003<sup>27</sup>, and it included enough rice to provide a one-month supply for the capital Island. Taipei attempted to further secure its position by quickly moving to make strong alliances with Kiribati's powerful clergy. President Tong said that the Australian government had pressured him to withdraw recognition from Taiwan<sup>28</sup>. In this situation, Canberra made the unusual move of breaking ranks with Washington, which clearly favoured President Tong's breaking relations with Beijing and shutting down its satellite tracking station. This may even be an early sign that in the future Australia will have much greater difficulty maintaining its "best of both worlds" strategy, whereby it claims that it does not have to choose between its US security ally and its increasingly indispensable PRC trading partner<sup>29</sup>.

In Vanuatu Australia played a leading role in supporting Beijing's objectives after Taipei made a higher bid in the local auction for diplomatic recognition. On 3 November 2004 Serge Vohor, Vanuatu's Prime Minister, signed an agreement in Taipei which purported to grant full diplomatic recognition to Taiwan, which allegedly promised Port Vila US\$28m in aid over the next five years. Vohor was facing a substantial budget deficit and he complained that China's aid to Vanuatu was small and unreliable—agreeing with

Taipei that his country should be able to recognise both the PRC and ROC, thereby maximising aid from both.

Vohor had long been Taiwan's friend. In 1992, when he was Vanuatu's foreign minister, he had signed a "mutual recognition past" with Taipei, but this had few results (other than expanding economic ties), since Port Vila did not establish formal diplomatic relations with the ROC. Vohor was also closely connected with Taiwan-linked offshore banking, property development, passport sales and immigration schemes in Vanuatu<sup>30</sup>.

Vohor said that he had kept his trip to Taipei secret because Beijing had twice before scuppered attempts by Vanuatu to establish diplomatic relations with Taiwan (in 1992 and 2000). This time Vanuatu's cabinet members and foreign affairs department expressed disbelief, shock and anger over not being informed about any negotiations with Taiwan or that Vohor was going to Taipei. PRC officials showed extreme irritation with Vohor and Australian officials, at a meeting in Port Vila that Vohor refused to attend, threatened to cut Canberra's annual aid of US\$24.4m (A\$31m) by more than 50% unless Vanuatu took measures to improve governance. Taipei's Ministry of Foreign Affairs summoned Australia's trade representative there to discuss the Vanuatu issue and it accused Beijing of pressuring Canberra to threaten Port Vila with aid reductions unless it removed diplomatic recognition from the ROC, both the PRC and Australia denied this.

On 19 November Vanuatu's cabinet unanimously revoked Vohor's 3 November communiqué from Taipei and reaffirmed the "one China policy" and Vanuatu's

recognition of Beijing. All ministers resigned *en masse* from the cabinet to protest against Vohor's support for Taiwan. Vohor was removed as Prime Minister on 10 December, shortly after allegedly assaulting China's ambassador in Port Vila when he protested about Taiwan's flag flying over its temporary "embassy". Amidst the controversy, Edward Natapei, whom Vohor had replaced as Prime Minister five months earlier, claimed that Edwin Tay, a Singapore lawyer who had suddenly arrived in Port Vila in November 2004 to develop courtroom challenges to parliamentary moves to depose Vohor, had offered him US\$2m in early 2004 if Natapei, who had only been Prime Minister for a few weeks, could arrange for Vanuatu to give diplomatic recognition to Taiwan.

In November and December 2004 prominent Vanuatu politicians and their families were allegedly shopping in Port Vila with new US\$100 bills which had allegedly come from one side or the other of the Taiwan Strait. Taiwan's diplomats were expelled from Vanuatu. Australia expressed satisfaction that Vohor had been deposed. The new Prime Minister Ham Lini went to Beijing in February 2005 to reaffirm Vanuatu's ties to the PRC. The PRC raised its annual aid to Vanuatu from US\$10m in 2004 to US\$32m in 2005.

From these cases we can draw some tentative conclusions. The Pacific Islands countries which are the most likely to switch recognition are those where governments face economic crisis or defeat, and where there is the prospect of a large increase in economic assistance as the result of the move. This was the case with the Marshall Islands in 1998,

PNG in 1999, the Solomon Islands in 2000 and Nauru in 2002 and 2005. In PNG, the Solomons and Vanuatu a diplomatic switch was averted only after the state that was already recognised made a higher counter-offer. Appeals to the economic interests of political elites may be significant in all cases, but they were particularly clear in Tonga in 1998, Kiribati in 2003 and Vanuatu in 2004.

### **RENTAL AUCTIONS AND OFFSHORE BUSINESS**

Taiwan and China are sometimes accused of buying friends in Oceania. In fact, Taipei and Beijing may only be renting them. In our contemporary global condition of postmodernity, with its valorisation of ephemerality<sup>31</sup>, there is even the possibility that Pacific Islands countries will shift relations back and forth between the ROC and PRC to raise maximum revenues from both sides--creating concern in Canberra.

The rental of diplomatic recognition is paralleled by the global neo-liberal trend (particularly since the late 1980s) toward auctioning<sup>32</sup> rights to public resources, which during post-World War II period (particularly from 1945 to 1974) were given away or allocated according to non-market political or administrative processes. The rental of diplomatic recognition has the seeming advantage of creating revenues for the Pacific Islands government. Pacific Islands leaders may feel that it is their ethical duty to obtain the best price from the bidding war between China and Taiwan. Indeed, politicians in Oceania favouring one over the other in defensively acting against the country's and region's best interests.

However, this narrow economic view of the “sovereignty business” may obscure larger issues and considerations. Like the Pacific Islands country hosting an offshore financial centre (OFC) or a tax haven for foreigners<sup>33</sup>, the government renting recognition to Taipei or Beijing creates questions among its own “natural” citizens about their relationship to their own state and nation. Allowing foreigners to pay for benefits that are far superior to those the state extends to its own people, this erodes the legitimating doctrine of mutual obligation and popular sovereignty, which presents the state as expressing the sacred, spiritual or transcendent unity of the “people” or the “nation”. Like the OFC, the renting of diplomatic recognition strengthens an emerging utilitarian global constitutionalism—a neo-liberal world politics where the interests of investors<sup>34</sup>. This weakens democracy and accountability to the people. OFC transactions, like PRC-ROC recognition decisions, are shrouded in secrecy. Since diplomatic recognition is auctioned by private treaty (rather than through open bidding) there are opportunities for impropriety and even corruption when large amounts of money are involved, outside of public scrutiny.

The true costs of increasing interference in domestic politics by the PRC and the ROC are difficult to calculate, but they may be considerable, as the general interest of Pacific Islanders (as well as Australian interests in the region) become ever more subject to the increasing influence of Taipei and Beijing on the political elites of Oceania to influence the outcome of recognition auctions. The continual bidding war between Beijing and Taipei makes the duration of the lease of diplomatic recognition (once signed) unpredictable. It virtually requires that China and Taiwan develop inside knowledge of

Pacific Islands political systems and strong ties to local political leaders—using their influence to sway outcomes in their favour. A major effect of the Taiwan-China conflict in the Pacific Islands has been to introduce large amounts of foreign money into domestic political activities, which are oriented away from grassroots concerns and the interests of ordinary citizens, whose voting rights are thereby depreciated. These foreign institutionalised interests may corrupt domestic political processes. Yet, the struggle for recognition produces higher flows of foreign aid, with arguable benefits for the domestic economy.

### **RECOGNITION AUCTIONS THEORIZED**

How are such auctions to be theorized? The most influential contemporary models of auctions derive from the Nobel Prize-winning work on non-cooperative games by Nash<sup>35</sup>, which has had a major impact on all the social sciences. His theory emphasises currently fashionable neo-liberal and individualistic assumptions about human behaviour, and its popularity has risen with the increasing salience of these ideological assumptions since the mid-1970s (especially in the English-speaking world).

Like the China-Taiwan rivalry, Nash's work arose out of the Cold War, but it did not gain immediate acceptance during the 1950s and 1960s, a "Keynesian" period when laissez-faire was generally distrusted. Nevertheless, Nash's theory has heavy Cold War overtones and both his theories and the Cold War have been connected (even by his sympathetic biographer<sup>36</sup>) to his paranoid schizophrenia. Nash had a top-secret clearance when he worked from 1950 to 1954 at the RAND Corporation on geopolitically-related

game theory (including war games). Nash admitted that the demons of this paranoid Red-baiting McCarthyite period in the US continue to haunt him and have a decisive influence on his life. Cold War economists at RAND and elsewhere were very important in promoting Nash's model<sup>37</sup>.

In a worst case scenario, the conflict between Taiwan and China and their continuing struggle for diplomatic recognition in the Pacific have some similarities to Cold War paranoid delusions. The competition between the countries and their Pacific Islands recognition auctions resemble a Nashian process of non-cooperative bargaining. Nash posits an individual actor which is animated by intense rivalry, which is mortally afraid of surrendering to others, and which defends against a pervasive threat to its<sup>38</sup> autonomy. The Nashian individual requires such a high level of watchful vigilance that it can never be receptive, reciprocal or relaxed. Its commitment to self-sufficient egoistic isolation is so strong as to produce a closed universe where systems of belief are very coherent, consistent and sealed by a rationality characteristic of paranoia. The Nashian individual is warily and hyperactively simulating (or thoroughly reconstructing) the thinking processes of the Other (being alert to every incident, however seemingly trivial). This Nashian model does not need communication, interaction or cooperation. The individual's goal is to reproduce internally the intentions of its opponent in order to select the most advantageous response. Nasar<sup>39</sup> commented on Nash's personality—"while he was preoccupied with the effect of others on him, he mostly ignored—indeed, seemed unable to grasp—his effect on others". Martin Shubik, who had been a postgraduate student with Nash at Princeton, made a critical comment with enough resonance to be

repeated by others—”You can only understand the Nash equilibrium if you have met Nash. It’s a game and it’s played alone.”<sup>40</sup>

A non-cooperative game with particular relevance to Taiwan’s and China’s bidding war in Oceania is the dollar auction, invented by Shubik himself. This game can be played with as few as two bidders. The players bid for one dollar, but the second-highest bidder must pay the full amount of its last bid and receives nothing in return. In practice (whether in experiments or party games), bids usually rise considerably above one dollar, when the second-highest bidder tries to win (or cut losses) by going over the highest bid. This worsens the dilemma of the second-highest bidder as suspense intensifies, then slackens and, in the end, dies away. The purchaser is frequently embarrassed, having paid more than a dollar for a dollar. The second-highest bidder usually spends considerably more than a dollar to receive nothing. It is not unusual for both payments to add up to a sum of between three dollars and five dollars<sup>41</sup>.

Players persevere to save face and to probe their courage, reliability and perseverance in their quest to give meaning to (and get a return on) their investment. The dollar auction diplomacy of Taiwan and China in Oceania may resemble a price war, or watching a bad film, or waiting on the telephone when one is placed “on hold”, or the futile US military escalation in Vietnam forty years ago—where people are locked into a self-sustaining cycle of efforts to win back or legitimate their previous losses, and in the process fall into still larger losses. Escalation of the struggle is sometimes irrational and frequently unplanned. A bidder offering large amounts of money is not always aware of the exact

reason for this behaviour. Confusion and uncertainty are dominant emotions which increase as the bidding advances, so that the intentions at the conclusion of an auction can contrast sharply with those at the outset.

At the beginning bidders tend to have egocentric and short-term dispositions, and they do not consider that they and other players would offer more than a dollar for a dollar. As in price wars, participants are frequently oblivious to the effects of their own behaviour and to the fact that their own actions contribute to their predicament. These problems are even more evident among parties recognised as being antagonistic to one another (such as China and Taiwan), which come into the auction with the aim of manipulating the bidding in order to discipline each other. It is common for players to establish limits (frequently fifty cents) and to presuppose that no other bidder will move beyond that boundary. When the bids reach that frontier, some players are completely unprepared and get excited, and confused.

While the motives that induce the bidders to participate in the auction are numerous and diverse, as soon as they become emotionally entangled (especially as bidding nears one dollar) they confront the same predicament—to give up and lose the money that they have already committed, or to continue bidding. As soon as this happens, their original motivations change and become similar.

As the bidding nears one dollar, bidders frequently seek support from the audience and observe whether their friends are making fun of them or encouraging them. From this

moment on, the onlookers are tense. The bidders' justifications for prolonging the auction can be placed in four categories, with no particular precedence in terms of their importance or temporal sequence—trying to recover money already committed to the auction; saving face through escaping the disgrace that comes from surrender; attempting to demonstrate their superiority; and imposing painful retribution on the other party which they blame for having produced the distressing dilemma in which the players are embroiled.

Bidding one dollar instantly destroys any possibility of profit for anyone. At the moment when economic success becomes impossible and players may be seen as foolish for letting their conflict get “out of hand”, they are inclined to redefine the purpose of the auction as moral victory, with the quitter being the loser. Players who are mainly driven by status rivalry (rather than by monetary gain) bid a great deal more than one dollar—hoping to be the last one standing and thereby gaining a Pyrrhic victory. Some bidders force losses on the other players merely to torment them. Many who offer more than a dollar say that they are pushed to do it by the other contestants' bids and that they are perplexed by their rivals' behaviour, which some of them consider to be insane. In the majority of instances players never grasp that identical pressures are impelling them and their adversaries to bid more than one dollar. Their extraordinarily egocentric perspective, above all else, blocks bidders from arriving at a broader view of their struggle, from admitting the meaninglessness of their past investments, and therefore from being capable of stopping the bid escalation without losing face<sup>42</sup>. Once the bids go

above one dollar, players are slower in bidding, but they are inclined to escalate until they are broke<sup>43</sup>.

A big surge in bidding frequently contributes to ending the auction, particularly if one player increases the bid by a great sum compared with the preceding bid. This allows the other player to quit and yet save face, especially because the higher bidder must spend a lot more to finish first—creating an ultimate outcome which is closer to being equal. Big rises in bidding most often push out the adversary, but only when both players are already suffering great losses.

The escalating diplomatic competition between Taiwan and China has cost both countries a great deal of money without making either more secure. States, like human beings, sometimes fail to foresee how others will respond to their behaviour. They easily lose sight of the repercussions. In dollar auctions myopic individualism and short-term rationality impel bidders to undermine their mutual welfare and security. During a prolonged struggle the two sides may understand that neither party can win, but neither wants to quit—for fear of being imagined to be a loser. They are helplessly tied together as they proceed down a road to mutual destruction, each blaming the other, and each wanting an opportunity to start over and get out of a predicament that has become increasingly pointless and self-defeating<sup>44</sup>.

Shubik and Teger emphasise that a dollar auction can be converted from a non-cooperative game to a cooperative game. A round of escalation is often ended by a

pretext that permits one or both parties to save face. One party may unexpectedly proclaim that the true point of contention is Z—something that it realises the other party will quickly acquiesce to, since it was never really a source of disagreement. The other party will consent to Z, and the struggle will stop. In mediation or arbitration, Z is often suggested by a third party in the audience, which encourages unprecedented levels of cooperation between the two players. Z is often conceptualised as new information or an event which alters the situation and allows both parties to stop the conflict, while allowing them to maintain that their past disputes were legitimate at that time, although outmoded in the new situation<sup>45</sup>. In the case of China and Taiwan, Z may develop out of the end of the Cold War.

In developing the dollar auction model Shubik acknowledged his indebtedness to the game theory of von Neumann and Morgenstern, who rejected Nash's theory and the individualistic ideology that it expressed<sup>46</sup>. The "Nash program" attempted to reduce all cooperative games into noncooperative versions, which could complement neoclassical economics. Morgenstern was an anti-neoclassical economist and von Neumann rejected Nash's theory and the very conceptual terms of neoclassical analysis. They argued that a scientific political economy would require a mathematics very different from that used by the neo-classicals<sup>47</sup>. They contended that that a successful solution to the problems that Nash was addressing required social cooperation<sup>48</sup>. In their theory, mutual advantage necessitates social communication, coalitions, explicit agreements, and acquiescence to superior, more encompassing organisations which can continually bind the parties in beneficial arrangements. The implications of their game theory were unpalatable to

many Cold Warriors since it implied the need for high levels of international cooperation and even world government<sup>49</sup>.

## **CONCLUSION**

The struggle between Taipei and Beijing for diplomatic recognition in the Pacific Islands is likely to be significant in shaping the future of the region<sup>50</sup>. In some respects, over the near term, Taiwan's role in Oceania may increase Australia's and America's influence and the Pacific Islands' dependence on Canberra and Washington—in situations when China resists intervention and assistance by international organisations (such as the UN or World Bank) in countries that recognise Taipei (such as the Solomons, the Marshalls, Palau or the nearly-bankrupt Nauru). Over the longer term, China's expanding role in Oceania may challenge Australia's dominance in the Southwest Pacific<sup>51</sup> and America's pre-eminence in the Pacific Ocean<sup>52</sup>, a prospect which has accelerated since the attacks on 11 September 2001 diverted the attention of Washington from the growing strategic power of Beijing<sup>53</sup>. With the rise of China has come the growing prominence of diplomatic recognition auctions in Oceania.

The rules of games can be changed. Games with new, improved and more socially beneficial rules can be developed. Antagonistic players can be redefined as cooperative. In the interests of world peace it may be time to take the lessons of the dollar auction and von Neumann's and Morgenstern's theory more seriously in relation to tensions across the Taiwan Strait. A scenario influenced by their game theory would see a heightened

role for international agencies in reducing or ending conflicts between Beijing and Taiwan. International peace missions, shuttle diplomacy and special envoys would start operating. They have long been active in the world's other regional trouble spots, but they have had little or no role in resolving tensions across the Taiwan Strait. This would attenuate dubious auctions for diplomatic recognition by Pacific Islands states and ease some of Canberra's concerns about the region.

## Notes

<sup>1</sup> An earlier version of this paper was presented at the first conference of the Australian Association for the Advancement of Pacific Studies, QUT Carseldine, Queensland, Australia, on 26 January 2006. I thank Catherine Hoyte for her comments.

<sup>2</sup> The following discussion of Taiwan's isolation is indebted to Deon Geldenhuys, *Isolated States: a Comparative Analysis* (Cambridge: Cambridge University Press, 1990).

<sup>3</sup> Six countries in Oceania recognise the PRC--Papua New Guinea, Fiji, Vanuatu, Tonga, Samoa, and the Federated States of Micronesia. The "present" in this essay is 21 July 2006. In this article Oceania refers to the Pacific Islands. In many other contexts (but not in this paper) the term also includes Australia and New Zealand.

<sup>4</sup> Gary D. Rawnsley, "Selling Taiwan: Diplomacy and Propaganda," *Issues & Studies* 36, no. 3 (May 2000): 1-25.

<sup>5</sup> Thomas V. Biddick, "Diplomatic Rivalry in the South Pacific," *Asian Survey* 29, no. 8 (August 1989): 800-815.

<sup>6</sup> Carlos Brian Pheyey, "Diplomatic Rivalry between Taiwan and the PRC in the South Pacific Islands," *Issues and Studies* 35, no. 2 (March 1999): 73-104.

<sup>7</sup> These are principally related to Tonga's satellite venture. See Anthony van Fossen, "Globalization, Stateless Capitalism and the International Political Economy of Tonga's Satellite Venture," *Pacific Studies* 22, no. 2 (1999): 1-26.

<sup>8</sup> David M. Lampton, "China: Think Again," *Foreign Policy* 110 (1998): 13-27.

<sup>9</sup> Lee Teng-hui, "Understanding Taiwan," *Foreign Affairs* 78, no. 6 (1999): 9-14.

<sup>10</sup> Jou juo Chu, "The Rise of Islands-China Separatism," in *Taiwan in the Asia-Pacific in the 1990s*. ed. Gary Klintworth (St. Leonards, New South Wales: Allen and Unwin Australia, 1994), 44-58.

<sup>11</sup> Tuan Y. Cheng, "Foreign Aid in ROC Diplomacy," *Issues & Studies* 28, no. 9 (September 1992): 67-84.

<sup>12</sup> George T. Yu and David L. Longenecker, "The Beijing-Taipei Struggle for International Recognition: from the Niger Affair to the U.N.," *Asian Survey* 34, no. 5 (1994): 475-488.

<sup>13</sup> Thomas J. Christensen, "Chinese Realpolitik," *Foreign Affairs* 75, no. 5 (1996): 37-52.

<sup>14</sup> Paul Burkett and Martin Hart-Landsberg, "Thinking about China: Capitalism, Socialism and Class Struggle," *Critical Asian Studies* 37, no. 3 (2005): 433-440; Anita Chan, *China's Workers Under Assault: The Exploitation of Labor in a Globalizing Economy* (Amonk, New York: M.E. Sharpe, 2001).

<sup>15</sup> Melanesia includes Papua New Guinea, the Solomon Islands, Vanuatu, New Caledonia, and (usually) Fiji, which is occasionally seen as part of Polynesia. Polynesia encompasses American Samoa, the Cook Islands, French Polynesia, Niue, Samoa, Tokelau, Tonga, Tuvalu, and Wallis and Futuna. Anglonesia consists of Norfolk Islands and Pitcairn Islands.

<sup>16</sup> Micronesia incorporates the Federated States of Micronesia, Guam, Kiribati, the Marshall Islands, Nauru, the Northern Mariana Islands, and Palau.

<sup>17</sup> Taiwan welcomed the new name, as it seemed to facilitate the ROC becoming a "Pacific Island" member of the Forum.

<sup>18</sup> Anthony van Fossen, "Pacific Islands," in *The Asia-Pacific Profile*. ed. Bernard Eccleston, Michael Dawson, and Deborah McNamara (London: Routledge, 1998): 248-300; Ron Crocombe, *The South Pacific* (Suva: University of the South Pacific, 1989, 2001).

<sup>19</sup> Richard J. Payne and Casandra R. Veney, "Taiwan and Africa: Taipei's Continuing Search for International Recognition," *Journal of Asian and African Studies* 36, no. 4 (November 2001): 437-450; Ian Taylor, "Taiwan's Foreign Policy and Africa: the Limitations of Dollar Diplomacy," *Journal of Contemporary China* 11, no. 30 (February 2002): 125-140.

<sup>20</sup> Allen Carlson, *Unifying China, Integrating with the World: Securing Chinese Sovereignty in the Reform Era*. (Stanford, California: Stanford University Press, 2005). The number of countries recognising Taiwan rose from a low of 21 in 1983 to 31 in 1993, when the rapidly growing Chinese economy and diplomatic offensive began to produce a gradual reduction. See *Chinese Yearbook of International Law and Affairs* (Chinese Society for International Law—Chinese (Taiwan) Branch of the International Law Association). Volume 1 (1981) to Volume 21 (2003).

<sup>21</sup> Biddick, "Diplomatic Rivalry in the South Pacific".

<sup>22</sup> Eric Harwit, "Taiwan's Foreign Economic Relations: a Case Study of its Ties with Palau," *Contemporary Pacific* 12: no. 2 (March 2000): 465-479

<sup>23</sup> This is notwithstanding the fact that two candidates for independence, Niue and the Cook Islands, are considering the possibilities of creating diplomatic relations with Beijing.

<sup>24</sup> Colin Mackerras (ed.), *Australia and China: Partners in Asia*. (South Melbourne: Macmillan Australia, 1997).

<sup>25</sup> Anthony van Fossen, "Citizenship for Sale: Passports of Convenience from Pacific Islands Tax Havens," *Commonwealth and Comparative Politics* 44 (2007), forthcoming.

<sup>26</sup> Brad Roberts, Robert A. Manning, and Ronald N. Montaperto (2000) "China: The Forgotten Nuclear Power," *Foreign Affairs* 79(4):53-63; David Shambaugh (2001) "Facing Reality in China Policy," *Foreign Affairs* 80(1): 50-64.

<sup>27</sup> *Islands Business*, January 2004, p. 10.

<sup>28</sup> SBS Australia (2004) "Pawn in the Pacific," *Dateline* television programme, 25 February.

<sup>29</sup> William T. Tow, "Sino-American Relations and the 'Australia Factor': Inflated Expectations or Discriminate Engagement," *Australian Journal of International Affairs* 59, 4 (2005): 451-467.

<sup>30</sup> Anthony van Fossen, "Secessionist Tax Haven Movements in the Pacific Islands," *Canadian Review of Studies in Nationalism* 28 (2001): 77-92 and "Citizenship for Sale", op. cit.

<sup>31</sup> David Harvey, *The Condition of Postmodernity* (Oxford: Blackwell, 1989).

<sup>32</sup> An auction is a kind of public or private sale where bidding establishes the price and the winning purchaser. Auctions are often used by monopolists (for example, a Pacific Islands government renting diplomatic recognition). Such monopolists have extraordinary bargaining power and tend to renege on agreements if they receive a higher offer (R. Preston McAfee and John McMillan, "Auctions and Bidding," *Journal of Economic Literature* 25 (1987): 699-738). Auctions frequently sell goods or services for which no established market has been institutionalised (for example, Eastern European public assets after the disintegration of the Soviet Empire) or for rare or unusual objects or services See Flavio Menezes and Paulo K. Monteiro, *An Introduction to Auction Theory* (Oxford: Oxford University Press, 2005).

<sup>33</sup> For a survey of the region's tax havens, see Anthony van Fossen, "Pacific Islands Offshore Financial Centres and Internal Development" *Pacific Economic Bulletin* 17, 1(2002): 51-75.

<sup>34</sup> Ronen Palan, *The Offshore World* (Ithaca, New York: Cornell University Press, 2003); Stephen Gill, "New Constitutionalism, Democratization and Global Political Economy," *Pacifica Review* 10, issue 1 (1998): 23-38.

<sup>35</sup> John Forbes Nash, *Non-Cooperative Games*. Ph.D Dissertation, Princeton University, 1950; reprinted in John Nash, Harold W. Kuhn, and Sylvia Nasar (editors), *The Essential John Nash* (Princeton: Princeton University Press, 2002), pp. 51-84; Paul Milgrom, *Auction Theory for Privatization* (Cambridge: Cambridge University Press, 1999).

<sup>36</sup> Sylvia Nasar, *A Beautiful Mind: A Biography of John Forbes Nash, Jr., Winner of the Nobel Prize in Economics, 1994* (New York: Simon and Schuster, 1998), fictionalised in a popular film by Ron Howard et al., *A Beautiful Mind* (Hollywood: Universal Studios, 2002).

<sup>37</sup> Nasar, *Ibid.*, pp. 104-154.

<sup>38</sup> I refer to a player in a game as an impersonal it, rather than as a he or she. This is appropriate to the ROC-PRC confrontation.

---

<sup>39</sup> Nasar, *Ibid.*, p. 168.

<sup>40</sup> Nasar, *Ibid.*, page 366; Philip Mirowski, *Machine Dreams: Economics Becomes a Cyborg Science*. (Cambridge: Cambridge University Press, 2002), pages 331-349.

<sup>41</sup> Martin Shubik, "The Dollar Auction Game: A Paradox in Non-cooperative Behavior and Escalation" *Journal of Conflict Resolution* 15 (1971): 545-547; William Poundstone, *Prisoner's Dilemma* (New York: Anchor, 1993); Allan I. Teger (ed.), *Too Much Invested to Quit* (New York: Pergamon, 1980).

<sup>42</sup> Among all the dollar auctions observed by Teger (*Ibid.*, pp. 17-18), the one conducted by military trainees was unique in that they vociferously urged hesitant players not to quit, but rather to escalate their bids substantially above a dollar in the pursuit of "victory".

<sup>43</sup> Teger, *Ibid.*

<sup>44</sup> Teger, *Ibid.*; Shubik, *Ibid.*; Poundstone, *Ibid.*

<sup>45</sup> Teger, *Ibid.*

<sup>46</sup> Shubik, *Op. Cit.*; John von Neumann and Oskar Morgenstern, *Theory of Games and Economic Behavior* (Princeton: Princeton University Press, 1944, 1947, 1953).

<sup>47</sup> Philip Mirowski, "What Were Von Neumann and Morgenstern Trying to Accomplish?", In E. Roy Weintraub (ed.), *Toward a History of Game Theory* (Durham, North Carolina: Duke University Press, 1992), 113-147.

<sup>48</sup> Even the Prisoner's Dilemma experiments conducted at the RAND Corporation when Nash was working there challenged his model, since the subjects most often chose to cooperate. Nasar, *Op. Cit.*, pages 118-119. In a personal conversation with Shubik in 1952 von Neumann said that he disliked Nash's theory and that "a cooperative theory made more social sense". Martin Shubik, "Game Theory at Princeton, 1949-1955, A Personal Reminiscence", In E. Roy Weintraub (ed.), *Toward a History of Game Theory*. *Ibid.*, 151-163, quotation on page 155.

<sup>49</sup> Von Neumann was himself a Cold Warrior, but his theory (in contrast to Nash's) had many themes and implications that clearly projected his thinking beyond Cold War styles of thinking.

<sup>50</sup> Anthony van Fossen, *South Pacific Futures: Oceania Toward 2050* (Brisbane: Foundation for Development Cooperation, 2005): 21, 34, 57-8, 68, 83, 119.

<sup>51</sup> Susan Windybank, "The China Syndrome," *Policy* 21 (2005), issue 2: 28-33.

<sup>52</sup> John Henderson, Benjamin Reilly, and Nathaniel Peffer, "Dragon in Paradise: China's Rising Star in Oceania," *The National Interest* 72 (2003): 94-105.

<sup>53</sup> Kishore Mahbani, "Understanding China," *Foreign Affairs* 84, issue 5 (2005): 49-60.