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Status at the Margins: Why Paraguay Recognizes Taiwan and Shuns China

Tom Long^a and Francisco Urdinez^{b,*}

^a *Department of Politics and International Studies, Warwick University, Coventry, United Kingdom.* ^b

Political Science Institute, Pontificia Universidad Católica de Chile, Santiago, Chile.

Abstract: Why do some states choose to recognize de facto states, even when this involves potential costs? We explore this question through the case of Paraguay-Taiwan relations, arguing that Paraguay uses its diplomatic recognition policy for status-seeking, which generates intangible and material benefits that offset the macroeconomic opportunity costs of foregone Chinese investment, aid and credit. We build an econometric model to estimate Paraguay's "Taiwan cost" and then develop a qualitative case study that draws on semi-structured interviews with actors in Paraguayan foreign policymaking to explain the domestic dynamics that underpin the relationship. We advance recent work on small states' pursuit of international status by illustrating how small and de facto states follow different status-seeking rationales than those commonly recognized in the literature. We also build on that literature by exploring how elite structures shape status-seeking. Though unusual, the case of Paraguay-Taiwan relations has broader implications for bilateral relationships with de facto states and status-seeking strategies of small states.

Keywords: Status; de facto states; small states; recognition; One China Policy; Taiwan; Paraguay; elites

Introduction

As of October 2019, only 15 countries maintained diplomatic relations with Taiwan, with four having switched recognition to China in the previous year. Under pressure from the One China Policy, Taiwan's remaining allies forego substantial Chinese investment, loans, and credits (Tuman and Shirali 2017). These opportunity costs suggest an interesting question: why do some states bear costs to recognize de facto states? We explore this question through the case of Paraguay-Taiwan relations. Since 1957, the two countries' have maintained close

* Corresponding author. *Email address:* furdinez@uc.cl (Francisco Urdinez). Correspondence: Campus San Joaquín, Macul 7820436, Chile. ORCID: <http://orcid.org/0000-0003-3333-478X>.

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ties despite the distance between them. The international odd couple seems to enjoy a mutually beneficial, if niche, relationship. Paraguay is Taiwan's only partner in South America and lends support in international organizations; Taiwan provides economic assistance to one of the lowest-income countries in the region. Even as other states shift their recognition policies, Taiwan-Paraguay relations are at a high point, buttressed by state visits, bilateral agreements, and aid.

The case is made curious by Taiwan's status as a *de facto* state. "De facto states" are political entities that are denied international legal sovereignty due to a lack of widespread diplomatic recognition (Florea 2017; Pegg 2017). For *de facto* states, greater diplomatic recognition confers international legal sovereignty (Krasner 1999; James 1999) and related benefits including status, *entrée* to international organizations, access to international finance, and security under norms of extantism and against territorial conquest (Coggins 2014, 34–35). However, maintaining external sovereignty may depend more on the recognition of great powers and peers than on internal "stateness" (Coggins 2014). Taiwan is a strong illustration: despite amply meeting the 1933 Montevideo Convention's criteria for statehood, Taiwan faces a complicated international environment where its external sovereignty is blocked by China's power and vehement opposition (Freedman 2016, 807-816), expressed in the One China Policy (Rich 2009).

Broader recognition would provide Taiwan greater security, predictability, and international participation. Benefits for states that recognize Taiwan are less clear—a puzzle that may apply to relations with other partially recognized *de facto* states. Coggins (2014, 37) argues that "the potential benefits flowing from relations with a new [or *de facto*] state would have to outweigh substantial costs in order to make unilateral recognition attractive." She adds that "small and weak states" will be "hesitant to recognize without Great Power endorsement" (*ibid.*, 42). For small states that recognize Taiwan, including Paraguay, these claims do not hold in the abstract. Studies on the recognition of Taiwan long stressed material benefits, anti-communism, and US pressure. While those factors were relevant in the past, none adequately explains recognition today (though US pressure returned to the headlines in late 2019). Instead, Paraguay pays large opportunity costs, which we label the "Taiwan cost," for its recognition policy. The policy is not forced on Paraguay or structurally determined. Most external factors, including occasional pro-China pressure from Paraguay's neighbors, favor the opposite policy. Anti-communism has faded and US pressure was absent during South America's "China boom" from roughly 2003-2013, when Paraguay's Taiwan cost was greatest. So, why has Paraguay maintained diplomatic relations with Taiwan, despite the cost?

Our argument consists of two parts: first, P Paraguay uses its diplomatic recognition policy for status-seeking, which suggests a different facet of small-state international status-seeking. Relations with Taiwan create parochial, relational status, in which Paraguay receives meaningful attention and respect from its partner—one worthy of emulation due to shared historical ties and Taiwan's economic success in difficult geopolitical circumstances—complemented by smaller (though highly symbolic and discretionary) material benefits. Other accounts emphasize attention from great powers as a benefit of status for small states, but sustained attention from a near-peer may trump the fickle attention of a great power. Relations with Taiwan provide Paraguay—smaller, poorer, and overshadowed by its neighbors—respect that it values (Wolf 2011), and allow Paraguay to "choose the right pond"

(Wohlforth et al. 2018, 4), where it looms large and makes a tremendous difference. We further advance the literature on small states' status by connecting international status-seeking to a domestic-level foundation rooted in Paraguayan elite dynamics. Paraguayan diplomats and elites are celebrated by Taiwan in a way they would not be for long by China. Interviews suggest Paraguayan elites feel sympathy for a small state "bullied" by a large neighbor, in part because they read their own international history and condition in a similar light (Abente 1987). For Taiwan, retaining diplomatic partners in the face of rising Chinese economic clout requires both the provision of status benefits and the maintenance of elite consensus in its partner countries.

The article proceeds as follows. First, we review the literature on recognition and de facto states, with attention to Taiwan. We then employ work on small states and international status-seeking and, separately, on elite theory to explain the domestic-level foundations of status-seeking. Next, we turn to a two-stage, mixed-methods study of Paraguay-Taiwan relations that combines an econometric model and case study based on semi-structured interviews and documentary sources. We conclude by assessing implications and areas for further research.

Literature review: Status and recognition, for small and de facto states

Since the 1990s, International Relations has devoted growing attention to de facto states, including their (non)recognition and engagement. Scholars use multiple terms to refer to entities that possess aspects of internal sovereignty but lack broad diplomatic recognition. The most prominent are *de facto states* and *quasi-states* (others include proto-states, contested states, shadow states, and unrecognized states). We use "de facto state" because it is the most common term and was originally coined with the intended meaning (Pegg 1998). De facto states vary significantly but share at least two characteristics: "leadership must be in control of (most of) the territory it lays claim to, and it must have sought but not achieved international recognition as an independent state" (Kolstø 2006, 725–26).

Taiwan's de facto dilemma emerges from a stringent either/or approach to diplomatic recognition, the One China Policy, and from an increasingly assertive Chinese campaign to isolate Taiwan. The One China Policy considers Taiwan and mainland China inalienable parts of a whole, meaning only one government can be recognized as sovereign. While Taiwan's position has evolved, China has been unwavering, seeing its interests in Taiwan as "sacred commitments" (Moore 2016). Taiwan's growing international isolation has been shaped by four historical events: exclusion from the United Nations in 1971; the loss of US recognition in 1979; the end of the Cold War; and the rapid emergence of China (Geldenhuys 2009: 208-233). While such "competitive sovereignty" is rare, it has a precedent in the West German Hallstein Doctrine; however, China-Taiwan competition is distinguished by starker inequalities in size and power.

Latin America has featured prominently in the Taiwan-China diplomatic battle. Despite the end of relations with the United States, Taiwan established diplomatic relations with several Caribbean countries—Saint Vincent and the Grenadines (1981), Dominica (1983), Saint Kitts and Nevis (1983), and Saint Lucia (1984)—to compensate for losses elsewhere. When Uruguay terminated relations with Taiwan in 1988, it threatened that progress. In response, Taipei deployed technical assistance and foreign aid (Rodriguez 2008), preserving its LAC partners from 1988 to 2007. However, since 2007, Taiwan has lost the

allegiance of Costa Rica, Panama, the Dominican Republic, and El Salvador to China’s diplomatic campaign (Figure 1). These changes are consistent with our argument below. In each country, elite cohesion eroded in the face of growing opportunity costs, creating space for pro-China interests. Several also had alternatives for status-seeking, while Taiwanese largesse became politically divisive.

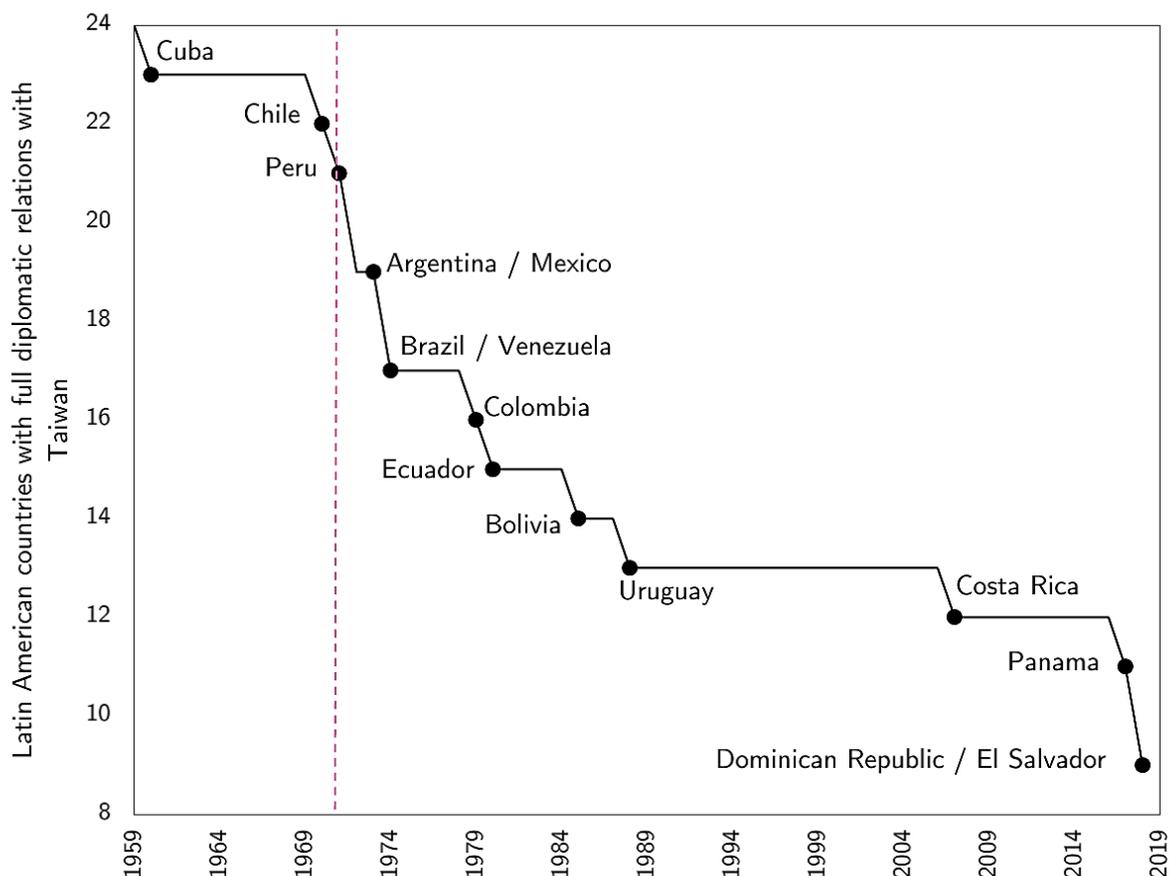


Figure 1: Diplomatic de-recognition in Latin America. The dotted line indicates UN Resolution 2758, which recognized the People's Republic of China as "the only legitimate representative of China to the United Nations." (1971).

Given its history of possessing international recognition and gradually losing it, Taiwan differs from entities that seek recognition for the first time. “Taiwan... can be said to be in a category of its own and occupy an intermediate position between a recognized state and a quasi-state” (Kolstø 2006, 726). Despite that, comparative studies of de facto states typically include Taiwan. Caspersen (2013, 12) and Florea (2017, 339) treat Taiwan as a de facto state from 1971 to the present. It is included as a case study of de facto statehood and (non)recognition (Geldenhuis 2009, 208–33; Lindeman and Ringmar 2011). Though Taiwan benefits from substantial international “engagement without recognition,” Ker-Lindsay (2015) shows that is common amongst de facto states.

Many studies of de facto states explore internal conditions and the domestic effects of international nonrecognition (Pegg 2017). More relevant for our concerns are studies of (non)recognition of de facto states, which have expanded alongside attention to recognition in IR more generally (Lindemann and Ringmar 2011; Coggins 2014, chap. 2; Riegl and Doboš

2017). This nascent literature focuses on the recognition decisions of great powers, whose individual decisions are most impactful (Caspersen 2009; Coggins 2014; Ker-Lindsay 2015; Newman and Visoka 2016). Coggins (2014, 45–48) emphasizes three major, sometimes competing, considerations for recognition decisions: geopolitics and power; domestic political implications; and the preservation of system stability. These factors capture many of the dynamics emphasized in work on patron states and on the emergence of particular de facto states.

However, de facto states also spend energy and resources seeking and maintaining the recognition of non-great powers. Taiwan is the example par excellence (Rich 2009), but it has not been alone (Newnham 2000). Greater attention to small states' decisions would provide a more complete picture of “the recognition game,” (Caspersen, 2009). Coggins' explanations are less relevant for non-great powers (nor are they intended for small states). Geopolitical factors matter mostly in the small state's immediate vicinity; domestic separatists may matter in some cases. These factors suggest reasons against recognition in isolated cases, but do not explain why small states would recognize de facto states.

One can surmise three alternative explanations for small-state recognition. First, extending Coggins' (2014) argument that great power decisions create a “tipping point” of recognition, small states should follow great powers due to coordinated pressure or socialization. Second, “kin-state” ethnic or ideological ties may motivate recognition of de facto states, at times through diasporas (Pegg 2017; Tellander and Horst 2017; Caspersen 2009). Finally, direct material benefits provide the most common explanation. Sharman (2017) argues that micro-states monetize diplomatic recognition—giving the example of Nauru's bidding war with China and Taiwan.

Literature on Taiwanese “checkbook diplomacy” in Latin America and elsewhere emphasizes material benefits (Newnham 2000; Rich 2009; Atkinson 2010). However, China is now increasingly willing and able to outbid Taiwan; simple checkbook diplomacy is losing explanatory relevance. During the last decade, opportunities for Chinese trade, loans, investment, and aid have fueled a turn to China. This economic pattern applies to Paraguay—a fact recognized by policymakers. Taiwan-backed projects are small compared to Paraguay's US\$27 billion economy—which is bound to China through agro-exports. US pressure and reflexive anti-communism are inadequate explanations for Paraguay today. The length of the relationship stands out, but states with longer histories have changed their recognition. If great power pressure, ethnic and ideological affinities, and material benefits are inadequate, what explains Paraguay-Taiwan relations?

Status-seeking at the margins

Mutual diplomatic recognition is an inherently social “acknowledgement of each other's status” as members of international society (Coggins 2014, 39). Between Paraguay and Taiwan, recognition is mutual and reciprocal, but status benefits are asymmetrical. For Taiwan, diplomatic recognition supports claims to sovereign statehood. The general benefits of recognition linked to membership in international society apply for Taiwan, but Paraguayan support goes further. Paraguay is among the largest states that recognizes Taiwan.¹ Relations with Paraguay allow Taiwan to retain an embassy in South America,

¹ Appendix Table 1 lists countries that recognize Taiwan.

where it has commercial interests and as a base to observe Chinese actions. Paraguay advocates Taiwanese participation in international organizations.

Paraguay receives international status of a different nature, with tangible and intangible benefits captured by its cohesive elite. These include material benefits like aid for politically favored projects—including funding the Diplomatic Academy and National Congress buildings—, attention through high-profile diplomatic visits and elite exchanges, and praise and recognition of Paraguay’s unique value to its longtime ally.

Though small states long played a minor role in IR debates about status, recent studies demonstrate they do pursue status, though through different strategies than larger states (Wohlforth et al. 2018; de Carvalho and Neumann 2014; Corbett, Xu, and Weller 2019; Reshon 2017). These studies stress how small states pursue status in relation to the larger powers that predominantly set international status hierarchies and confer the benefits associated with status (Hobson and Sharman 2005; Paul, Larson, and Wohlforth 2014). Duque (2018) argues that IR treatments of status overemphasize material attributes and overlook relational dynamics. Status emerges from recognition from peers and from “social closure” created by exclusive groupings. Duque finds that, “States recognize similar states rather than the states with the largest share of certain attributes” (578), a point that is consistent with our argument about Paraguayan status motives. However, relational centrality is unrealistic for de facto states and many small states. Such cases suggest that different, yet still relational and social, status motivations exist at the margins of international society.

Paraguayan status-seeking vis-à-vis Taiwan differs in target audience and strategy. The audience is comprised of de facto and small states, not great powers. Bucking the international trend, Paraguay is not seeking to be a “good state,” like Norway (Wohlforth et al. 2018; de Carvalho and Neumann 2014). Nor is it using the category of small state or the performance of vulnerability to achieve material benefits (Corbett, Xu, and Weller 2019). Paraguay-Taiwan relations illustrate how a self-selected peer group creates opportunities for status-seeking outside the normal hierarchies (Renshon 2017; Paul, Larson, and Wohlforth 2014). Regarding Taiwan, Paraguayans emphasize friendship between equals and how their country receives respect from Taiwan. China is seen as having little interest in understanding Paraguay and as brusquely presenting Paraguay with a conditional, either/or choice. This bothers Paraguayans whose foreign policy mentalities emphasize large, overbearing neighbors and historical losses suffered at their hands.²

Status-seeking often incurs costs, even for small states. We advance the literature on small-state status by unpacking the state to explain why those costs are paid. In Paraguay, a relatively small and cohesive elite shapes foreign policy decision-making in a way that permits relational status-seeking. Status-seeking and resulting benefits provide an international-level motive, while elite cohesion offers a necessary domestic-level condition to maintain the policy despite the opportunity cost. Though foregoing ties with China during the boom “left money on the table” for the country’s business interests, effective lobbying failed to emerge. Drawing on theories of elite politics (Gilens and Page 2014; Higley 2018a), we argue that the configuration of the Paraguayan elite, dominant political party, and a state apparatus that one interviewee called “prebendary and clientelist” dampened the formation of independent interest groups who might have successfully lobbied for foreign policy change.³

² Interviews #9, #10, #15.

³ Interview #9.

Paraguayan elites show low diversification and high cohesion (Higley 2018b).⁴ Given the country's smallness, dictatorial past, and limited economic diversification, the Paraguayan elite is concentrated with overlaps between the "political elite" and the broader "ruling class" (Kaltwasser 2018). Elites are embedded in patrimonial structures and insulated from societal pressures.⁵ That elite captures a large share of the tangible and intangible status benefits from the Taiwan relationship. Though the same elite might gain from hypothetical Chinese credits and investment, elite perceptions, constitution, and mindset are marked by conservatism.⁶ Decision-making emphasizes the avoidance of loss and control over gains for both material and intangible status benefits from Taiwan. This is the case, even as interviewees acknowledged that Paraguay missed Chinese infrastructure funding and incurred commercial transaction costs due to the lack of diplomatic relations with China.

In interviews, secondary literature, and the historical record, there is ample evidence of the high cohesion of the Paraguayan elite.⁷ Paraguayan governance was classically described as combining sultanism and patrimonialism (Riquelme 1988). For decades, Paraguay's economy has been marked by concentrated ownership, public sector patronage, military influence, corruption, and contraband (Borda 1997:132-133; Nickson and Lambert 2002; Klimovich and Thomas 2014). Paraguayan land concentration is among the highest in the world and increased during the recent agricultural boom (FAO, cited by Turner 2014; Oxfam 2016). Elites tended to be large landowners and other figures with economic connections to the state (Fogel 1997), forming the core of the long-dominant Colorado Party, which ruled in cooperation with the military.⁸ When combined with Paraguay's patronage-driven public sector, political and economic elites become highly intermingled: "The business and agricultural lobby is closely tied to the [Colorado] party, and this gives major access by group leaders to legislators and members of the executive branch" (Klimovich and Thomas 2014, 201). However, business leaders are not fully independent of state structures. "The most powerful industrial groups in the country have all amassed their wealth via, rather than in opposition to, the state" (Nickson and Lambert 2002:167). Though preferences for greater Chinese market access have recently been voiced by some agro-exporters (Última Hora 2019), elite cohesion limits possibilities for independent pressure.

The combined political-economic elite remains insulated from broader social pressures, with the state largely repressing demands for land and redistribution (Nickson and Lambert 2002), though recently public pressure against corruption has intensified. Historically, the ruling Colorado Party kept civil society weak and fragmented (Nickson 1988); still, independent student or trade-union pressure groups remain minimal (Klimovich and Thomas 2014:194).⁹ These characteristics are a legacy of a 60-year dictatorship, followed by an electoral regime with minimal alternation of power. While intra-elite squabbles over resource distribution are common, extra-elite alliances remain limited (Turner 2014). Klimovich and Thomas (2014:195) noted, "even after 20 years of limited democracy, interest

⁴ Elite theory literature often uses the term "integration." We use "cohesion" to avoid confusion with regional economic integration.

⁵ Interviews #1, #3, #12, #18.

⁶ Interviews #8, #10, #14, #15, #16.

⁷ Interviews #1, #3, #4, #8, #9, #10, #12, #14, #16.

⁸ Interviews #1, #4, #9, #11, #13. One interviewee said: "Stroessner ... appropriated the best lands from the poor and distributed them among those who belonged to the alliance between the Colorado Party and the armed forces, and thus the State became the oligarchical military and partisan state it is today."

⁹ Interview #18.

groups operate in a corrupt system with highly developed clientelistic relationships.” The institutional structure and historical context favor “rigid particularistic policies” and a “privatized state” (Nickson and Lambert 2002).

Elite cohesion and insulation is even more marked in foreign policy decision-making, which there is little civil society engagement and existing groups are closely linked to political insiders.¹⁰ One interviewee noted that the country’s senior diplomatic corps long emerged from the same Jesuit high school, while another said, the “last names and the traditions” of Paraguayan diplomacy remained unchanged by democratization, with diplomatic placements long marked by nepotism.¹¹ Though the legislature has a constitutional duty to vet ambassadorial nominees, it only exercised it during a brief interregnum of opposition control of the presidency.¹² Recent professionalization of the diplomatic corps remained limited to junior levels.

Finally, this elite demonstrates a high degree of loss aversion and conservatism, especially in foreign affairs. Interviewees used words like “inertia,” “extremely conservative,” and “reactive” to describe foreign policymaking. Relations with Taiwan offer a rare chance to be the proverbial big fish in a small pond in international relations, benefitting from attention, travel delegations, and discretionary donations. While difficult to measure, loss aversion is perhaps unsurprising for an elite with a long history of one-party state rule with limited experience in high-stakes international politics (Hafner-Burton, Hughes, and Victor 2013 suggest that experience dampens loss aversion). This helps explain why Paraguay deviates from the global norm regarding Taiwan. The relationship provides status benefits that are captured by a cohesive elite, which is insulated from pressure, and shows less concern for paying an opportunity cost than about potentially losing status benefits from Taiwan.

Case selection, methods, and data

Sharman (2017, 560–63) notes that IR’s predisposition towards great powers limits observations to states that are, by definition, extreme cases. Like Sharman, we consider the opposite extreme. Even the existing literature on recognition of de facto states replicates this emphasis on the decisions of great powers and the assumption that smaller states will fall in line (Coggins 2014, 42). Recognition of Taiwan by Paraguay and others suggests that great power recognition is an incomplete proxy for the decisions of other states. The failure to grant diplomatic recognition to a great power (China), when all great powers and an overwhelming majority of states do so deviates from theoretical projections.

Such deviant cases are useful for exploring theoretical anomalies and advancing new explanations that may “illustrate some causal factor that is applicable to other (deviant) cases” (Seawright and Gerring 2008, 302)—such as the smaller universe of countries that recognize de facto states. Our two-stage research strategy uses a mixed-methods approach of integration (Seawright 2016, 1-18) in which one method poses the question and the other method answers it. The first stage employs a quantitative model to estimate Paraguay’s “Taiwan cost,” the economic opportunity cost of not recognizing China. The existence of a large and salient cost raises the question of why Paraguay chooses to recognize Taiwan. The

¹⁰ Interviews #10, #15, #18, #21.

¹¹ Interview #5, #10, #11, #17, #19.

¹² Interview #18.

second stage consists of a qualitative case study of Paraguay-Taiwan relations that considers our explanation and those suggested by the literature on (non)recognition of de facto states.

For the case study, we conducted 21 semi-structured interviews with Paraguayan foreign policy actors.¹³ We identified key actors from media and documents and sought a diversity of perspectives: politicians from various governments, officials with different positions, businesspeople, academics, and journalists. All interviewees were asked about elite structures in Paraguay, foreign policy decision-making, Paraguayan international economic relations, and relations with Taiwan and China. Media coverage and secondary sources informed questions, corroborated interview data, expanded the case, and established public rationales. While official statements likely express positive views of a current ally, interviewees included former high-level officials who frankly discussed pro-Chinese sentiments and lost opportunities. The resulting narrative allows us to explore how elite dynamics shape decision-making and illustrate how decisionmakers view the costs and status benefits of relations with Taiwan.

Estimating the Taiwan cost

Below, we estimate the opportunity cost Paraguay paid for recognizing Taiwan—which frames our research puzzle. This estimate contributes to a broader debate on Chinese economic statecraft. Didier (2018) found that relations with Taiwan had a null effect on trade with China. Conversely, Urdinez et al. (2016) found that diplomatic relations with Taiwan affected Chinese investments from state and private companies and Chinese development banks in Latin America. Similarly, Tuman and Shirali (2017, 162) find that diplomatic relations with Taiwan negatively affect Chinese investments in a global sample, to the point that “countries that maintained diplomatic relations with Taiwan received none to little FDI compared to other countries that had no diplomatic relations.” We estimate the size of these lost investments, credits, and aid. We calculate a counter-factual total of Paraguay’s foregone Chinese investment and finance and then subtract real Taiwanese aid and investments to arrive at the “Taiwan cost.”

For the first step, we estimate models based both on a regional and a world sample. Our regional similarity-based sample comprises 25 countries and our world sample comprises 172 countries, both covering the 2005-2017 period for investments and the period 2005-2014 for aid and loans. Data from aid and loans comes from AidData’s Global Chinese Official Finance Dataset (Dreher et al. 2017), which tracks known overseas Chinese official finance between 2000-2014, including US\$354.4 billion of finance in 134 countries. On average, each Latin American country received US\$31.5 million annually in Chinese aid and US\$360 million in Chinese finance (see Table 2).¹⁴ For Chinese outward FDI (OFDI), we used the China Global Investment Tracker database, which classifies investment projects by company, amount, and sector (Scissors 2011). The dataset covers 2,747 projects in 151 different countries, totaling US\$1.73 trillion. Latin American countries averaged US\$ 499 million per year in Chinese OFDI, with Argentina, Brazil,

¹³ See Table B in the Online Appendix for a list of interviewees. Interviews were conducted in person in Asunción and in Boston and via Skype by the authors and Paraguayan research assistants. Citations use randomly assigned codes to guarantee anonymity.

¹⁴ Chinese aid figures are less transparent and follow different accounting standards than data from OECD countries. For an in-depth discussion, see Dreher et al. (2017).

Peru and Venezuela accounting for 78%.¹⁵ Values were originally expressed in current US dollars, so we deflated them using the IMF's Consumer Price Index, and log transformed the variables to adjust for differences among countries in the sample.¹⁶

To calculate the effect of relations with Taiwan, we created a dichotomous variable to express whether a country maintained diplomatic relations with Taiwan in a given year. Sixteen countries maintained relations with Taiwan during some or all of the period included in our data. The Vatican, which recognizes Taiwan, is excluded due to a lack of data for control variables and absence of meaningful economic relations with China or Taiwan. The regressions include controls for determinants of Chinese finance and investments identified in the literature (see Flores Macías and Krepps 2013, Urdinez et al. 2016, and Tuman and Shiralli 2017)¹⁷.

Hence, the baseline model is

$$OPPORTUNITY\ COST_{it} = \beta_0 + \beta_1 TAIWAN_{it} + \beta_{2...k} CONTROLS + \varepsilon_{it}$$

Where OPPORTUNITYCOST is expressed as the log transformation of Chinese OFDI, aid and finance, and TAIWAN is dichotomous with a value of 1 if the country maintains diplomatic relations with Taiwan in a certain year. The models are estimated using a Random-effects linear specification with yearly fixed effects and robust standard errors.¹⁸ Table 1 shows our baseline model using a similarity-based sample of LAC countries; the results show statistically significant opportunity costs. These results also hold against the global sample of 172 developed and less-developed countries, where effects are larger in magnitude and stronger in statistical significance.¹⁹

¹⁵ This dataset is the only publicly available source for project-level Chinese OFDI. The database allows us to select completed investments and final destinations for Chinese investment, excluding pass-through tax havens. One limitation: the dataset only registers transactions over \$100 million. However, this resulting bias should be small, as we use the logged transformed values of annual investment per country.

¹⁶ See Online Appendix for distribution of these variables before and after transformation.

¹⁷ See Online Appendix for descriptive statistics.

¹⁸ Since our independent variable (TAIWAN) does not vary over time in ten of the sixteen countries that maintained relations with Taiwan in our sample we could not use a fixed effect specification because the dummies per country correlate perfectly with TAIWAN. Hausman tests determined that random effects were the best specifications for these models. We included time dummies as controls because time could contribute to variation in the dependent variables. The appendix includes a robustness test that replicates Table 1 using a linear specification including a lagged dependent variable and an AR(1) structure.

¹⁹ Refer to the Online Appendix.

Table 1: Estimation of the opportunity cost of diplomatic relations with Taiwan in LAC

	<i>Chinese investments (log)</i>		<i>Chinese foreign aid (log)</i>		<i>Chinese loans (log)</i>	
	(Model 1)	(Model 2)	(Model 3)	(Model 4)	(Model 5)	(Model 6)
Recognition of Taiwan	-2.078*** (0.497)	-2.093* (1.021)	-0.668** (0.211)	-0.660 (0.721)	-2.335*** (0.432)	-4.814** (1.468)
GDP (log)		0.823* (0.376)		-0.369** (0.115)		-0.281 (0.378)
GDP per capita (log)		-0.396 (0.679)		0.0187 (0.235)		0.0162 (1.040)
Foreign direct investment, net inflows		0.0882 (0.0845)		0.00903 (0.0454)		-0.0288 (0.0805)
Corruption index		0.734 (2.041)		-1.836 (1.194)		4.406 (2.951)
External debt		-0.0856 (0.165)		0.289** (0.0959)		-0.279 (0.162)
Natural gas rents		0.00391 (0.00549)		-0.00638 (0.00350)		-0.0140 (0.00864)
Oil rents		0.0562 (0.0360)		-0.0155 (0.0362)		-0.120 (0.0809)
Agriculture, value added		0.0161 (0.0486)		-0.0224 (0.0237)		-0.124 (0.0691)
Mineral rents		0.103 (0.0772)		0.0287 (0.0542)		-0.126 (0.116)
Constant	2.067*** (0.621)	0.265 (5.127)	0.692* (0.273)	3.263 (1.907)	1.143** (0.417)	5.787 (9.274)
Adjusted R2	0.17	0.38	0.11	0.37	0.22	0.33
Period covered	2005-2017		2005-2014		2005-2014	
Observations	325	194	325	194	230	148

Note: Models 1-6 estimated through Random-effects linear models with yearly fixed effects, not reported in the table. Robust standard errors in parentheses. Statistical significance expressed as * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

As our dependent variables are log transformed, the coefficients need to be transformed to be interpreted. If a country in LAC switches recognition from Taiwan to China, Chinese investment would be expected to grow seven-fold (Model 2).²⁰ Chinese aid is not affected by recognition of Taiwan, as reflected in the non-significant coefficient in Model 4. We attribute this finding to the low amounts of aid in the region (see Table 2), because this variable is statistically significant in the world sample. Conversely, if a country switches recognition to China, Chinese loans would be expected to grow an astounding 122 times (Model 6).²¹ Table 2 shows real annual averages of Chinese investment, aid and loans in LAC, as well as the combined total as a percentage of GDP. On average, LAC countries that recognize Taiwan received roughly US\$850 million *less* in combined investment, aid, and finance from China than those that recognize China.

²⁰ The calculation is $100[\exp(2.093) - 1] = 710.11$.

²¹ The calculation is $100[\exp(4.814) - 1] = 12222.35$.

Table 2: Average of annual Chinese investment, aid and finance in LAC

	Chinese investment	Chinese foreign aid	Chinese loans	As a percentage of GDP
Argentina	1671.4	0.0	1302.8	0.64%
Barbados	41.7	0.0	0.8	0.33%
Bolivia	356.9	75.0	179.6	2.40%
Brazil	5028.2	0.0	1759.7	0.27%
Chile	228.9	0.3	106.6	0.15%
Colombia	149.5	0.3	5.9	0.05%
Costa Rica*	64.2	60.2	111.7	0.60%
Cuba	42.2	513.9	3.5	0.87%
Dominican Republic*	0.0	0.0	0.0	0.00%
Ecuador	935.5	12.7	1371.4	3.19%
El Salvador*	0.0	0.0	0.0	0.00%
Guatemala*	53.8	0.0	0.0	0.13%
Guyana	72.8	21.7	-0.5	3.91%
Haiti*	19.9	1.0	-0.2	0.27%
Honduras*	28.6	0.0	0.0	0.16%
Jamaica	220.5	79.7	72.0	2.29%
Mexico	202.8	0.5	118.0	0.03%
Nicaragua*	42.6	3.8	17.1	0.64%
Panama*	127.1	0.0	0.0	0.27%
Paraguay*	0.0	0.0	0.0	0.00%
Peru	1517.1	2.1	26.1	0.92%
Suriname	0.0	0.7	18.9	0.45%
Trinidad and Tobago	112.2	13.4	6.5	0.60%
Uruguay	0.0	0.9	6.7	0.02%
Venezuela, RB	1568.0	0.0	3902.9	1.24%
Regional average	499.4	31.5	360.4	0.78%
Average for those which recognize Taiwan	33.7	0.59	2.09	0.1%
Average for those which recognize China	721.6	46.2	531.7	1%

* Recognized Taiwan during the period. Costa Rica until 2007, Panama until 2017

Note: Investment, aid and finance in million US\$.

Economic benefits from Taiwan do not compensate for these losses. Taiwan is a small trading partner for Paraguay, in absolute terms and relative to China. In 2018, trade with Taiwan represented 0.33% of Paraguay's total trade. Taiwan investments in Paraguay have been "very scarce despite government statements that say otherwise" (Erickson and Chen 2007:78). Though official data on Taiwanese investments in Paraguay is minimal and virtually inexistent, local press, government, and interview sources suggest an average of only \$4 million per year. Instead, material benefits from Taiwan overwhelmingly arrive as foreign aid, which has been important and strategic. The International Economic Cooperation and Development Fund (ICDF) is the Taiwanese government's external aid agency, which cooperates with non-governmental organizations, especially the Tzu Chi Buddhist Foundation.

Quantifying aid and donations from Taiwan is challenging due to a lack of transparency—often criticized by Paraguayan opposition politicians.²² We compiled data from laws passed by the Paraguayan congress regarding Taiwanese aid and crosschecked it with data from ICDF, which average US\$ 11 million annually. Paraguay received five-year funds of US\$71 million and other sporadic benefits from Taiwan, which never exceeded US\$10 million annually (Table 3).²³ Recently, Taiwan increased five-year funding to US\$150 million. Most Taiwanese aid arrives via such five-year funds. Sporadic projects are smaller, but often go to cabinet ministers as discretionary funding, gaining outsized importance.²⁴

Table 3: Laws approved by the Paraguayan Congress in relation to Taiwan, 2005-2019

<i>Law</i>	<i>Year</i>	<i>Topic</i>
6275*	2019	Donation (US\$150 million) 2018-2023
6096	2018	Creation of a bi-national polytechnic university
5175	2017	Donation of US\$6 million for housing
3320	2015	Sent volunteers
5175*	2014	Donation (US\$71 million) 2013-2018
4022	2009	Cooperation agreement on culture, education and sports
3878	2009	Donation (US\$100 million)
3606 / 3402*	2008	Donation (US\$71 million) 2008-2013
3402	2007	Donation of (G\$9348 or US\$1.5 million) four housing
2548	2005	Donation (\$US2 million)

*Major donations from Taiwan. Other laws refer to the use of these major donations, not to new donations *per se*.

The estimate of the Taiwan Cost for Paraguay in the 2005-2014 period shows it is sizeable. In the period of study, in Paraguay, Taiwan invested an average of US\$ 4 million a year, provided aid for an average of US\$ 14.8 million and offered no loans. Table 2 shows that Paraguay received nil from China in aid, investment or finance, while regional annual average values for countries with diplomatic relations with China represented 1% of their GDP, a striking difference. This stark comparison between missed Chinese investments and finance and more limited aid from Taiwan begs the question: Why would Paraguay continue to pay this opportunity cost?

Case: Paraguayan recognition of Taiwan, 1957-present

We now turn to a longitudinal, qualitative case study, drawing on elite interviews, to address that question. Across the case, alternative explanations lose causal relevance. The Paraguayan case diverges from rationalist economic models: one would expect groups to lobby for Chinese recognition to capture unrealized gains, but even major agro-exporters have exercised little pressure.²⁵ Identity-based explanations grounded in shared anti-communism have declining relevance, nor has anti-communism diminished Paraguayan trade with China. As noted, the case diverges Coggins' (2014) arguments about recognition of *de facto* states.

²² Interviews #19, #20.

²³ ICDF declared eleven projects with Paraguay starting in 2006. Since approval of these funds does not pass through congress, we identified projects via ICDF documentation. See appendix table E.

²⁴ Interviews #5, #17, #21.

²⁵ Interview #19.

Instead, we hypothesize that Paraguay's policy originates in international status-seeking, in which Paraguay derives status benefits from its relationship with Taiwan. Though these benefits come at a macroeconomic cost, a cohesive and closed Paraguayan elite monopolizes status perks and maintains the policy through its control over the foreign policy process. As a former foreign minister said, "If the foreign policy of a country is to preserve its oligarchic, clientelist, and corrupt structures, then what it needs from its foreign policy is protection for that model."²⁶ Eventually, these rising opportunity costs may stress elite consensus, if and when they become politically salient. Perceived foregone material benefits and an erosion of elite consensus has spelled trouble for Taiwan's relations elsewhere, including in Central America and the Caribbean (LAC). Latent divisions have surfaced in Paraguay as perceived opportunity costs grew, but they have not yet disrupted relations.

Anti-communist allies: 1957-1988

Paraguay and Taiwan established diplomatic relations in 1957 during the third year of Paraguayan Stroessner's 35-year dictatorship. In Taiwan, Chiang Kai-shek had been defeated by Mao Zedong's revolution and taken refuge on Formosa island eight years earlier. Anti-communism was a central part of the bilateral agenda. Stroessner joined the World Anti-Communist League (created in Taipei in 1966), and the Taiwanese government collaborated with the implementation of Operation Condor, a joint intelligence endeavor between South American military governments to track down and eliminate opponents beyond their own borders (McSherry 2005). Even as Taiwan lost its UN seat and US policy shifted, the anti-communism of Paraguayan elites and preferences of many in the US Congress favored continued recognition of Taiwan. The Stroessner government was supported by conservative elites of the Colorado Party, who counted on the state and military to maintain stability in a highly unequal country. All were wedded to anti-communism, and in the Cold War context, China was identified as a communist state.²⁷ During Stroessner's 1975 state visit to Taipei, Taiwan and Paraguay pledged "to adopt necessary means to stop" communists and end "subversion" to advance the "common security of the free world" (Noticias de Taiwán 1975).

The anti-communist connection lasted throughout this period. In 1986, Stroessner's waning authoritarian government baptized a central avenue of Asunción with the name "Presidente Chiang Kai-shek"—a Chinese-style park with a statue of the Taiwanese dictator remains there today. The economic dimensions of Paraguay-China-Taiwan relations were less salient, especially early in the period, but they were favorable to Taiwan. Taiwan experienced much earlier and more significant economic growth than China, especially in electronics manufacturing. Asian electronics imported to Paraguay and then re-exported—often as contraband—were an important facet of Paraguay's grey-market economy (Birch 2014, 284). This provided economic benefits for a segment of the Paraguayan state and elites via contraband and corruption.²⁸ In this period, choosing Taiwan over China was not a radical decision for Paraguay and is congruent with various theoretical accounts.

²⁶ Interview #2, #4, #7, #8.

²⁷ Interviews #1, #19, #20.

²⁸ Interviews #19, #20.

Continuity in a period of change: 1988-2003

The period of 1988-2003 saw four major changes for Paraguay and for Taiwan's diplomatic prospects: the end of the Cold War, Paraguay's democratic transition, increased China-Taiwan diplomatic competition, and China's economic emergence. The end of the Cold War accelerated de-recognition of Taiwan. In addition, most post-Soviet or newly independent states recognized China. The anti-communist ideology at the heart of Paraguay-Taiwan relations quickly declined. Because US support for Paraguay's dictatorship had depended on anti-communist international alignment, it also diminished. Post-Cold War US-Latin American relations were marked by consensus around democratization and liberal economic policies, which led to a withdrawal of US support for Stroessner.

As democratization swept South America in the 1980s, Paraguay's aging dictator struggled in the face of weak economic conditions and pressure from the United States (Mora 1998). The country transitioned to electoral democracy in 1989. However, Stroessner's ouster bore the hallmarks of a palace coup, and members of the same hegemonic party, with close ties to Stroessner, took over. The Colorado Party and economic and institutional structures remained largely intact (Fournier and Burges 2000). One interviewee noted the continuity: "As the transition to democracy was made by the Colorado Party, it meant that the international links of the former Colorado Party leadership that participated in the coup remained. It is not that another group of the Colorado Party entered."²⁹ The governing elite still could insulate itself from, or co-opt, other elements of society. Anti-communism became less salient, but that did not dramatically affect elite configuration. An interviewee noted that, decades later, a high-ranking diplomat still referred to Stroessner as "*mi general*." The end of the dictatorship did not lead to a reevaluation of Paraguay's foreign relations, which were marked by "inertia" and "extreme conservatism."³⁰

As Taiwan's international diplomatic position slipped, competitive economic statecraft took on greater weight. Paraguay benefitted from this competition, gaining credit on friendly terms from Taiwanese banks, along with support for buildings, technical support, scholarships, and other projects (Erickson and Chen 2007). This included a US\$400 million loan from Taiwanese banks in the late 1990s, with deferrals and additional smaller credits granted during the following decade. Reporting within Taiwan shed light on off-the-books funding for influence peddling at least from 1994-2000. Cases of corruption and bribery came to light, including in Central America. For Paraguay, lasting economic benefits from Taiwanese aid and donations were limited; most Taiwanese migrants have departed, and a high-profile industrial park stands largely empty (*The Economist* 2016).

Direct material benefits from Taiwan grew more important during the period, but the limited macroeconomic gains mattered less than the form these benefits took in the context of Paraguay's elite configuration. Nonstate pressures for diplomatic realignment did not materialize despite changing international structural and ideological contexts. As China grew and Taiwan struggled to keep pace, Taiwan increasingly turned to strategies that fostered relationships with Paraguayan elites and emphasized status. As Taiwan lost allies, Paraguay became more important and valued.

²⁹ Interview #16.

³⁰ Interviews #1, #2 #5.

The China boom and beyond: 2003-2018

The most recent period saw two major relevant events. The most important was the tremendous growth in China-South American economic relations. The second was an interval of opposition presidential rule for the first time in modern Paraguayan history. In this period, Paraguay's Taiwan cost became obvious, and existing explanations less satisfactory.

China's economic growth led to major shifts in trade and investment patterns for South America, especially skyrocketing demand for commodity exports, including Paraguayan soy and livestock. This drove a roughly 690% increase in Paraguayan agricultural exports from 2002 to 2013;³¹ precise trade with China is obscured because Paraguayan commodities are re-exported to China through neighbors, but China is understood to be the leading buyer of these products. However, Paraguay's China boom did not include the investments or credits received by other South America countries. Other international factors also favored China over Taiwan. US interest in the issue declined, as did US presence in Paraguay and the Southern Cone. By the middle of the period, China's commercial importance to Paraguay outstripped that of the United States.

However, regarding Paraguay-Taiwanese relations, the more things changed, the more they stayed the same. Economic rationales—supportive of Taiwan in period 1 and ambiguous in period 2—clearly favored relations with China after 2003, as our Taiwan cost model indicates. Furthermore, interviewees noted how Paraguay's infrastructure needs matched China's patterns of investment in neighboring countries. Taiwanese aid grew in 2019 but still did not match China's scale. Furthermore, Taiwan's donations were "characterized by corrupt management and impunity, and little ends up developing into projects."³² Paraguay's diplomatic recognition of Taiwan emerged as an irritant in Mercosur, of which Paraguay is a member. Hoping for a deal with China, fellow member Uruguay complained at various intervals (UPI 2011).

China's economic influence deeply affects Paraguay, even beyond the commodity boom. Paraguay is the world's fourth-largest soy exporter. In 2017, ChemChina spent US\$43 billion in one of the largest corporate purchases in history to acquire Swiss Syngenta, a fundamental player in the global soy business. China also purchased a Hong Kong-based trading house with contracts for about 10% of Paraguayan soy exports (Bronstein and Desantis 2018), and the Chinese state-own conglomerate Cofco bought grains-exporter Nidera. China now operates directly in Paraguay's main economic activity. Several interviewees suggested private Chinese capital had begun arriving indirectly in Paraguay through companies based in third countries.³³ While commercial ties increase, China may be gaining other forms of leverage over Paraguay; pro-China rumblings surfaced in late 2019 largely from meat producers whose market can be curtailed through phytosanitary regulations (Última Hora 2019).

As the China boom rippled through Paraguay's economy, divisions emerged within the Colorado Party and, less visibly, the foreign ministry, over China and Taiwan. President Nicanor Duarte Frutos (2003-2008) took a strong pro-Taiwan line, but others foresaw a change towards Beijing. Diogenes Martinez, who briefly served as foreign minister in the early 1990s, served as President of the Paraguayan Association of Friends of the People's

³¹ WTO International Trade Statistics, available at <https://data.wto.org/>

³² Interview #1.

³³ Interviews #1, #4, #5, #17, #18,.

Republic of China (APACHIN), seeking to change established Paraguayan-Taiwanese relations. However, the interest group achieved limited results, with 93 listed members in June 2018, ranging from former officials to average citizens.³⁴ Although traditional anti-communism had lost relevance, the foreign ministry was characterized by the continuation of a “conservative mindset” and reactive “organizational culture.”³⁵ One interviewee noted that the “ideological issue mattered during Stroessner’s dictatorship, but once it was over, it disappeared.”³⁶ Despite that, reflecting on personal experience regarding China, an interviewee reflected that, “The circles of power are going to impede any movement whatsoever.”³⁷

The second major change was short-lived. The 2008 elections brought a non-Colorado president to power—a watershed in a country marked by one-party rule. President Fernando Lugo (2008-2012), a former bishop, ran on a populist leftist platform. Lugo came from outside the cohesive and insulated elite and heralded a potential shift in Paraguay’s staid politics, including for Paraguay’s friendship with Taipei. During the campaign, Lugo criticized Taiwanese aid for funding political campaigns and promoting corruption (Agence France Press 2007). As an outsider, Lugo and his coalition had not shared in the benefits from relations with Taiwan. However, as president, Lugo was cautious, attempting to increase ties with China without revoking diplomatic recognition of Taiwan. While suggesting a “gradual advance” with China, Lugo’s Foreign Minister Alejandro Hamed Franco emphasized in 2008 that “We should never in any way forgot the assistance that [Taiwan] has given, which is why we are searching for the best formula to satisfy both sides” (EFE Newswire 2008). Nor was Lugo adverse to Taiwanese gifts, which included a Bell 427 helicopter for presidential use (EFE Newswire 2011). Still, the Lugo administration’s pro-China statements rattled Taiwan. Citing China’s economic emergence, Lugo’s Foreign Minister Hector Lacognata stated in 2010: “We will have relations with China. In fact, there is already an intense commercial relationship without an embassy. What we are going to do is formalize what already exists” (qtd. in Arce 2010).

A possible change under Lugo was delayed by a China-Taiwan diplomatic truce early in the administration of Taiwanese President Ma Ying-jeou. While the truce slowed Lugo’s momentum, it is not a sufficient explanation for Paraguayan allegiance to Taiwan. During the truce, countries without relations continued to pay a Taiwan cost through the absence of Chinese aid, investment, and credit. Nor was the truce total; Malawi switched recognition in 2008 and The Gambia cut ties with Taiwan in 2013. Later rapid changes in recognition made it clear that China continued talks with Taiwan’s allies despite the truce. Paraguay explored relations with China despite the truce but backed off due to domestic pressure. Lugo later appeared to warm to Taiwan. In a 2012 state visit, Lugo reaffirmed relations with Taiwan and questioned the value of ties with China, warning of a damaging flood of Chinese imports. On the visit, he sought promises for Taiwanese investment (EFE Newswire 2012). Unlike several Latin American states that switched sides since 2017, Paraguay’s relations with Taiwan improved after the China-Taiwan truce.

³⁴ “Asociados de Apachin,” www.apachin.org, accessed June 19, 2018. The website has since become inoperable, but is available through cached versions.

³⁵ Interview #10, #18.

³⁶ Interview #12.

³⁷ Interview #9.

However, the period of change ended abruptly with Lugo's ouster in a late 2012 "lightning impeachment" (Lambert 2012). The near-unanimous impeachment was provoked by Lugo's reformist land and tax policies, affinity with the Latin American left, and presidential weakness caused by personal scandal. Lugo faced intense opposition, intimately linked to continued state-elite connections and high levels of elite insulation and cohesion. Lambert (2012) called the process "an almost inevitable response from elites to a reformist administration" by "the political embodiment of the tiny elite that runs the country." While there was an outcry from friendly regional governments, Paraguay largely continued as before. Lugo's administration had limited effects, both on elite configuration and Taiwan policy, despite booming trade with China. Pro-Chinese momentum, slowed under Lugo by the cross-strait truce and effective Taiwanese entreaties, stopped with his removal.³⁸

The election of Cartes (2013-2018) brought the Colorado Party back to the presidency. Cartes's government was close to Taiwan despite events that favored China: the 2017 break between Taiwan and Panama, the Syngenta purchase, and Uruguayan pressure on Mercosur for a Free Trade Agreement with China in 2018. Despite the increasingly evident opportunity costs, few Colorado Party politicians suggested change publicly, though some responded to a pressure from cattle ranchers by seeking ways to increase access to the Chinese market without diplomatic relations. Erstwhile China advocate Diogenes Martínez joined the Cartes government as defense minister and his visible pro-China stance subsided. Personal ties between Taiwan and the Colorado Party elite regained salience. One interviewee cited Paraguayan Chancellor Eladio Loizaga's involvement in organizing the 1979 World Congress of the Anti-Communist League as an example of longstanding Paraguay-Taiwan connections (also, *Última Hora* 2016).

Status-seeking appeared in multiple ways during the period. While anti-communism was no longer cited, Paraguayan elites highlighted their "historical friendship" with Taiwan and the benefits it provided. Taiwan lavished attention on Paraguayan elites, affirming Paraguay's importance and providing symbolic material benefits. Taiwan expanded its invitations for travel delegations, including broader segments of Paraguayan society—politicians, military, business, civil society, and artists—interviewees repeatedly noted. Taiwan extends a "permanent invitation" for "senators, delegates, ministers [and] generals, and they love it."³⁹ Even at lower levels, Paraguayan diplomats are treated to well-appointed training courses in Taipei.⁴⁰ Taiwan invites young Paraguayan leaders and funds their education, building sympathy.⁴¹ Paraguayan elites trumpet Taiwanese projects for political gain. Interviewees noted that China did not demonstrate similar respect, failing to show understanding of Paraguayan society and treating it as backwards and universally corrupt.⁴² Paraguayans noted that Taiwan sent ambassadors to Paraguay who had previously held high-ranking positions. "From that, you can see the importance that Paraguay has for them."⁴³

Senior officials often refer to a special friendship with Taiwan—an idea fomented by close personal ties to the island.⁴⁴ Major legislators are invited to Taiwan each year and

³⁸ Interviews #20, #21.

³⁹ Interview #20.

⁴⁰ *Ibid.*

⁴¹ Interview #9.

⁴² Interview #20.

⁴³ Interview #7.

⁴⁴ Interviews #6, #11.

nearly all presidential candidates received Taiwanese donations, followed by a grant to cover set-up costs. Small grants from Taiwan are given substantial political and media attention, amplifying the relationship's perceived benefits; leading media outlets are owned by families closely connected to the broader power structure.⁴⁵ Taiwan frequently expresses its gratitude for Paraguay's friendship, and for its support for joining international bodies like the World Health Assembly. While many interviewees recognized lost Chinese investments, pro-Taiwan figures question the long-term benefits of relations with China. These benefits were not only about personal material gain; they are understood as important to Paraguay's status.

“From the moment that we stop recognizing Taiwan, we stop being number one for continental China, because we are a small country, we have the same exports but on a smaller scale as Argentina and Brazil, so we lose our transcendence and importance. Right now, we are important because we are the only country in South America that recognizes Taiwan.”⁴⁶

Material benefits are perceived in the context of Paraguay's elite configuration, allowing Taiwan's smaller material capacity to offset factors that would otherwise favor China. The relationship creates opportunities for prestige, such as being feted in high-profile diplomatic visits, in addition to material benefits. Taiwan often gives discretionary funds⁴⁷ and it garners outsized attention in Paraguay.

However, growing realignment in Central America and the Caribbean, pushed by growing and salient opportunity costs and the erosion of pro-Taiwan elite consensus, has drawn more attention within Paraguay to the nonrecognition of China. Key Paraguayan elites have proactively pushed back against the idea that a change in recognition is inevitable or beneficial. Cartes made a state visit to Taiwan in July 2017, shortly after Panama switched recognition to China. When asked about the possibility of lost Chinese investment in early 2018, Industry Minister Gustavo Leite said, “But we wouldn't know if that [investment] would happen even if we were to have diplomatic relations. Look at what happened to countries that abandoned Taiwan and were to get Chinese support; what they got was Chinese colonialism” (qtd. in Bronstein and Desantis 2018). Leite highlighted Paraguay's ability to export to China through third countries, implying that recognition was economically irrelevant. The ability to export to China placates key interest groups and allowed state elites to maintain a “comfortable relationship” with Taiwan. However, this also suggests a susceptibility to Chinese commercial restrictions. One interviewee said:

“Whether or not we have diplomatic relations with China, it does not matter to these sectors, so they will not press for a change. No importers or powerful exporters have any interest in a change, so the only sector that would have an interest would be one that benefits from foreign investment and loans. The only actor who would consider such benefit is the state, and if the state (ministries, political heads, etc.) show no interest, then there is no reason to believe that diplomatic relations with China will be established soon. Why does the Paraguayan state not consider investments nor loans

⁴⁵ Interview #15.

⁴⁶ Interview #7.

⁴⁷ Interviews #18, #20.

from China as attractive enough? Because in the end, the state is the government, and the members of the government are in a very comfortable relationship with Taiwan the way it is."⁴⁸

The policy has continued under President Mario Abdo Benítez, of the Colorado Party, in office since August 2018. He has emphasized a desire to expand commercial relations with China, “always respecting our historic friendship with Taiwan” (Última Hora 2018). Abdo Benítez visited Taiwan as president of Paraguay’s Congress; at the time, Taiwanese President Ma noted that Abdo’s father visited Taiwan while serving as Stroessner’s private secretary (Office of the President 2018). Taiwanese President Tsai Ing-wen attended the new Paraguayan president’s inauguration, and Abdo Benítez reciprocated with a state visit two months later. Taiwan emphasized the continuity and value of the relationship and ongoing cooperation.⁴⁹

Despite the opportunity costs, faded anti-communism, and lack of coordinated great power pressure, Paraguay favors and benefits from the historic relationship with Taiwan. This stems in part from the status that Taiwan gives Paraguay as a key ally—one of few instead of one of many. Paraguayan interviewees mentioned sympathy for a fellow small country faced with overbearing neighbors: from the 19th century war that cost Paraguay most of its territory and adult male population to the negotiations over the Itaipú dam, Paraguayans feel overshadowed by big neighbors.⁵⁰ Taiwan is again adapting its strategy to the renewed loss of allies and the fact that it cannot materially outbid China anymore. Frequent official visits and public statements of appreciation embed the notion that Paraguay-Taiwan relations are status-enhancing. Its investment in a joint Taiwan-Paraguay university and the provision of some 40 scholarships to study in Taiwan was emphasized by pro-Taiwan Paraguayans as a recognition of the relationship’s importance, while sceptics see it as boondoggle favored by a particular president but unlikely to create widespread benefits.⁵¹

Paraguay’s elite structure remains cohesive, integrating political and economic elites, and insulated from interest groups that might be expected to lobby for foregone benefits. Elites prize the certain—if more limited—benefits of the relationship with Taiwan, and the respect and status that accompany it. If alternative status opportunities arise, or Paraguay’s Taiwan cost and the concentration of status benefits become more politically salient, latent divisions could become manifest and elite cohesion could erode.

Conclusions

At the margins of international society, status and status-seeking adopt characteristics that differ notably from those that emphasize ranking of capabilities, great power recognition, and relational centrality. While not to the exclusion of those aspects of status-seeking, diverse emphases of status appear both in regard to the international-legal status of de facto states like Taiwan and for overshadowed small states like Paraguay.

Pro-Taiwan Paraguayans often emphasize their country’s relative “importance.” For Taiwan, Paraguay matters; Taiwan demonstrates this by acting as a good “friend.” For

⁴⁸ Interview #12.

⁴⁹ Interview #6.

⁵⁰ Interview #10, #15.

⁵¹ Interviews #6, #7; c.f., #18.

China, Paraguay only matters to weaken Taiwan. Many Paraguayans express sympathy for Taiwan's plight, seeing it as akin to their own, and contrast the respect demonstrated by Taiwan with China's brusque approach. This sort of language shows a concern with international status that differs from great power attention or inclusion and rank in international clubs. Taiwanese friendship has material perks; while these are far smaller than potential Chinese investments and loans, they concretize the status that Taiwan provides. For a small and landlocked country, typically overshadowed by its larger neighbors, opportunities to be recognized as internationally important are scarce. On the other hand, because Taiwan knows it cannot count on diplomatic recognition from great powers, it searches for status among the small and lavishes attention on its remaining allies.

We have highlighted the large difference between the potential economic goods China would provide and the smaller material benefits offered by Taiwan. This "Taiwan cost" suggested the need to examine the international justifications and domestic foundations of Paraguay's policy. We have highlighted how elite dynamics shape perceptions of status and how a cohesive elite captures the benefits of this status, with minimal independent lobbying from interests that might capture Chinese investment. The paper makes theoretical contributions to the understanding of international status-seeking in an overlooked corner of international society; it also pushes this nascent literature to engage more deeply with the domestic political structures that shape such status-seeking. We contribute to the literature on (non)recognition of de facto states by highlighting how the recognition decisions of small states may differ from great power concerns—and from economic cost-benefit calculations. These contributions suggest several directions for further research. For the study of de facto states, the recognition decisions of small states may be fruitful avenues of research, producing insights into small state behavior more generally. It also suggests that the emerging literature on small states' status-seeking should examine small state cooperation closely, and without assuming great power centrality.

Taiwan has run into diplomatic difficulty, losing allies even in its former Central American stronghold. Since 2007, Costa Rica, Panama, El Salvador, and the Dominican Republic have changed sides. Elites in those countries stressed growing material benefits of engagement with China. These benefits became salient, outweighing the sometimes-controversial status blandishments offered by Taiwan. In Costa Rica, elite consensus on the issue fragmented first. In a country with a history of effective transitions of power and a reputation for transparency, policy change was pushed along by reports of corruption that made Taiwan politically divisive (Rich and Dahmer 2017; Casas-Zamora 2009). Chinese investment in Panama's canal expansion made the issue front-page news there, and the country's prominence and growth made it less dependent on marginal status benefits. El Salvador, where US pressure has been more evident, has a more fragmented elite as a result of civil conflict and party alternation; as Chinese entreaties became more salient, it became evident that support for Taiwan was weak. Nicaragua, which retains relations with Taiwan, offers nearly a contrary case. Under President Daniel Ortega, Nicaragua's narrow, patrimonial, and repressive elite has made the country a near-pariah. Despite Nicaragua's acrimonious relations with Washington, and Ortega's 1985 decision (later reversed) to recognize China, Taiwan provided Ortega both a financial lifeline and a much-needed status boost in the wake of domestic unrest. The implications for Taiwan are not pleasant; several remaining allies—Haiti, Honduras, Guatemala, for example—suffer legitimacy deficits

closely related to their pursuit of status and elite capture of benefits. Many others are microstates. This makes Paraguay even more important.

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Status at the Margins: Why Paraguay Recognizes Taiwan and Shuns China

Online Appendix

Table A: Countries recognizing Taiwan in late 2019

	<i>GDP¹</i>	<i>Population²</i>
<i>Africa</i>		
Swaziland	3.4 (155)	1.34 (152)
<i>Europe</i>		
Vatican City	-	-
<i>Oceania</i>		
Marshall Islands	0.19 (187)	0.05 (202)
Nauru	0.10 (189)	0.013 (213)
Palau	0.30 (186)	0.021 (212)
Tuvalu	0.01 (190)	0.011 (214)
<i>Caribbean</i>		
Haiti	7.9 (138)	10.84 (83)
Saint Kitts & Nevis	0.90 (176)	0.054 (201)
Saint Lucia	1.6 (166)	0.17 (180)
Saint Vincent and the Grenadines	0.76 (179)	0.11 (185)
<i>Central America</i>		
Belize	1.8 (165)	0.36 (172)
Guatemala	6.8 (70)	16.58 (68)
Honduras	2.16 (103)	9.11 (95)
Nicaragua	1.31 (120)	6.14 (109)
<i>South America</i>		
Paraguay	2.74 (97)	6.72 (106)

Note: ¹Values in Billion USD. In parentheses, the rank out of 190 countries; data from World Bank for 2016 (latest available).

²Values in million people. In parentheses, the rank out of 214 countries; data from World Bank Data for 2016 (latest available).

Table B: List of interviewees in alphabetical order

<i>Name</i>	<i>Position</i>
Abente, Diego	Former senator and representative of Paraguay before the Organization of American States
Baez, Martin	Manager at GuaranFeeder (export company)
Boccia, Alfredo	Writer, prominent political commentator in Paraguay
Carter, Miguel	Development consultant and former advisor to President Lugo
Codas, Gustavo	Former International Affairs Advisor during the presidency of Fernando Lugo
Espinola, Cinthya	Manager at Tecnomil (agribusiness company)
Fretes Carreras, Luis Antonio	Paraguayan Ambassador and professor of International Relations
Gomez Forentin, Carlos	Historian, professor at the National University of Asunción
Hernandez Estigarribia, José Félix	Former Foreign Minister under President Federico Franco
Lacognata, Hector	Former Foreign Minister under President Fernando Lugo
Lara Castro, Jorge	Former Foreign Minister under President Fernando Lugo
Luis Gonzalez Arias	Ambassador, Chief of Staff of the presidency of the Paraguayan Industrial Association
Massi, Fernando	Senior researcher at the Analysis and Dissemination Center of the Paraguayan Economy
name withheld per request	Director of International Relations of the National Service of Agri-Food Health and Quality of Paraguay
name withheld per request	Manager at COFCO Latin America
name withheld per request	Former counsellor at the Taiwanese Embassy in Paraguay
name withheld per request	Paraguayan Ambassador formerly appointed in Taiwan
Oviedo, Susana	Journalist at newspaper <i>Ultima Hora</i>
Ramírez Lezcano, Rubén	Former Foreign Minister under President Nicanor Duarte Frutos
Torales, Jaime	Former diplomat and Paraguayan delegate at Human Rights Council
Zavala, Fidel	Senator, member of the Patria Querida Party

Note: In reporting our findings, we used interview codes assigned randomly to guarantee anonymity.

Table C: Descriptive statistics for control variables in baseline model

<i>Description</i>	<i>Source</i>	<i>Observations</i>	<i>Mean</i>	<i>SD</i>	<i>Min</i>	<i>Max</i>
External debt stocks (% of GNI)	World Bank Data	1,230	45.65	45.68	1.02	927.33
Natural gas rents (% of GDP)	World Bank Data	1,797	0.61	2.50	0.00	42.10
Oil rents (% of GDP)	World Bank Data	1,834	4.21	10.41	0.00	62.54
Agriculture, value added (% of GDP)	World Bank Data	1,834	4.21	10.41	0.00	62.54
Mineral rents (% of GDP)	World Bank Data	1,716	13.19	12.80	0.04	65.60
GDP (current trillion US\$) (log)	World Bank Data	1,835	3.75	2.17	-1.82	9.74
GDP per capita (current US\$) (log)	World Bank Data	1,835	8.43	1.51	5.39	11.63
Foreign direct investment, net inflows (% of GDP)	World Bank Data	1,830	5.49	11.00	-58.32	252.31
Political corruption index	V-Dem	1,874	0.53	0.30	0.01	0.98

Table D: Pairwise correlation matrix

	1	2	3	4	5	6	7	8	9
1 GDP (current trillion US\$) (log)	1								
2 External debt stocks (% of GNI)	-0.24	1							
3 Natural gas rents (% of GDP)	0.03	-0.11	1						
4 Oil rents (% of GDP)	0.10	-0.11	0.18	1					
5 Agriculture, value added (% of GDP)	-0.53	0.11	-0.02	-0.13	1				
6 Mineral rents (% of GDP)	-0.17	0.05	-0.02	-0.09	0.20	1			
7 GDP per capita (current US\$) (log)	0.63	-0.04	0.03	0.12	-0.82	-0.22	1		
8 Foreign direct investment, net inflows (% of GDP)	-0.11	0.19	-0.01	-0.07	-0.04	0.06	0.07	1	
9 Political corruption index	-0.35	-0.03	0.12	0.22	0.57	0.13	-0.71	-0.09	1

Table E: Estimation of the opportunity cost of diplomatic relations with Taiwan in global sample

	<i>Chinese investments (log)</i>		<i>Chinese foreign aid (log)</i>		<i>Chinese loans (log)</i>	
	(Model 7)	(Model 8)	(Model 9)	(Model 10)	(Model 11)	(Model 12)
Recognition of Taiwan	-1.289** (0.399)	-1.162** (0.427)	-1.140*** (0.123)	-1.552*** (0.201)	-1.079** (0.355)	-1.674*** (0.310)
GDP (log)		0.922*** (0.156)		-0.0116 (0.0716)		0.582*** (0.131)
GDP per capita (log)		-0.556* (0.227)		-0.546** (0.176)		-0.520 (0.284)
Foreign direct investment, net inflows		0.0308 (0.0188)		-0.00462 (0.00708)		0.0283 (0.0162)
Corruption index		-0.197 (0.843)		-0.143 (0.573)		0.445 (0.832)
External debt		0.00153 (0.00122)		0.00129 (0.000940)		0.00404 (0.00345)
Natural gas rents		-0.0130 (0.0147)		-0.00368 (0.0218)		-0.0239 (0.0250)
Oil rents		0.0700*** (0.0155)		0.0105 (0.0196)		-0.00679 (0.0204)
Agriculture, value added		0.0180 (0.0184)		0.00925 (0.0133)		0.0101 (0.0200)
Mineral rents		0.0516* (0.0211)		0.0280 (0.0157)		-0.00427 (0.0264)
Constant	1.006*** (0.176)	2.0931 (2.104)	0.983*** (0.124)	4.314** (1.470)	0.885*** (0.177)	3.801 (2.519)
Adjusted R ²	0.17	0.38	0.11	0.37	0.22	0.33
Period covered	2005-2017		2005-2014		2005-2014	
Observations	2228	1128	2228	1128	1487	791

Note: Models 7-12 estimated through Random-effects linear models with yearly fixed effects, not reported in the table. Robust standard errors in parentheses. Statistical significance expressed as * p<0.05, ** p<0.01, *** p<0.001.

Table F - Replication of Table 1 using PCSE, lagged dependent variables and AR1 structure (Robustness check)

	<i>Chinese investments (log)</i>		<i>Chinese foreign aid (log)</i>		<i>Chinese loans (log)</i>	
	(Model 1b)	(Model 2b)	(Model 3b)	(Model 4b)	(Model 5b)	(Model 6b)
Recognition of Taiwan	-1.458*** (0.312)	-1.803+ (1.064)	-0.720*** (0.178)	-1.148+ (0.699)	-2.628*** (0.441)	-2.997* (1.500)
Dependent variable (t-1)	0.331*** (0.0661)	0.143 (0.0877)	-0.234* (0.0951)	-0.352** (0.110)	0.0727 (0.102)	-0.0191 (0.119)
GDP (log)		0.778* (0.305)		-0.541** (0.181)		-0.238 (0.443)
GDP per capita (log)		-0.163 (0.719)		0.0533 (0.480)		0.919 (0.909)
Foreign direct investment, net inflows		-0.00131 (0.0833)		-0.0233 (0.0456)		-0.0636 (0.0737)
Corruption index		0.520 (2.066)		-1.600 (1.238)		0.809 (2.920)
External debt		0.00863 (0.00749)		-0.00709 (0.00484)		-0.00974 (0.00769)
Natural gas rents		-0.0530 (0.286)		0.262 (0.283)		0.436 (0.332)
Oil rents		-0.00660 (0.0878)		-0.0453 (0.0454)		0.0714 (0.104)
Agriculture, value added		0.0287 (0.0566)		-0.0461 (0.0365)		-0.0146 (0.0646)
Mineral rents		0.0987 (0.125)		0.0661 (0.0633)		-0.144 (0.174)
Constant	1.759*** (0.267)	-0.357 (6.023)	0.796*** (0.162)	4.789 (3.997)	2.694*** (0.425)	-3.041 (7.434)
Adjusted R ²	0.18	0.26	0.07	0.24	0.13	0.29
Period covered	2005-2017		2005-2014		2005-2014	
Observations	300	194	300	194	191	135

Note: Models 1b-6b estimated through Panel Corrected Standard Errors. Panel corrected standard errors with AR1 structure in parentheses. Statistical significance expressed as + p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Table G: Projects in Paraguay financed by the ICDF

<i>Project name</i>	<i>Description</i>	<i>Responsible for the execution in Paraguay</i>	<i>Sector</i>	<i>Approved sum</i>	<i>Start date</i>	<i>End date</i>
Production of compound feed	Establish a compound feed factory that can produce 3 tons of feed per hour to feed pigs and chickens, and improve the quality and nutritional content of these foods, while reducing production costs.	a. Ministry of Agriculture and Livestock, b. School of Veterinary Science, National University of Asunción, c. ICDF office in Paraguay.	Agro business	US\$ 4.2 million	4/2013	12/2017
Health Information Management Efficiency Improvement Project	Health Information Management Efficiency Improvement Project Paraguay's health information management system lacks the integration capacity; the existing handwriting process makes hospital staff members overburdened. Its objective is to strengthen the management of the hospital in the designated regions (Guaira, Canindeyu and Alto Parana).	a. Ministry of Foreign Affairs b. Ministry of Health	Health	US\$ 2.6 million	1/2016	12/2019
Orchid Industry Development Project	The Technical Mission of Taiwan will cooperate with the Institute of Agricultural Scientific and Technological Research and the Ministry of Agriculture and Livestock to assist Paraguay in establishing orchid meristem tissue culture techniques and a stable supply of orchid meristem seedlings.	a. Ministry of Agriculture and Livestock, b. Institute of Agricultural, Scientific and Technological Research, c. ICDF office in Paraguay.	Agro business	US\$ 2.9 million	2/2015	2/2018

Project for breeding and growing fingerlings of pacu (native fish species)	The pacu is the second most important product of the Paraguayan aquaculture industry and, in fact, it is the most accepted fish in terms of local consumption. The Technical Mission of Taiwan will cooperate with the National University of Asuncion and the Ministry of Agriculture and Livestock to help Paraguay produce 2.6 million pacu fry for four years.	a. Aquaculture division, Ministry of Agriculture and Livestock, b. School of Veterinary Science, National University of Asunción, c. ICDF office in Paraguay.	Fishing	US\$ 1.8 million	11/2014	11/2018
Taiwan Youth Service abroad	5 military personnel were sent to Paraguay	-	Technical cooperation	-	9/2014	under implementation
2015 Health Personnel Training Program	The program provides medical personnel from partner countries with one to three months of on-the-job training. Participating countries: Burkina Faso, Nigeria, Marshall Islands, Tuvalu, Fiji, Nauru, Kiribati, Myanmar, Solomon Islands, Saint Kitts and Nevis, Honduras and Paraguay.	Ministry of Foreign Affairs	Humanitarian assistance	NT\$ 6.3 million (US\$ 214 mil)	1/2015	12/2015
Aquaculture Project	This project is expected to generate annual sales of US \$ 60 thousand in the production of male tilapia fingerlings. By providing these fry to aquaculturists, the total value of yields will reach US \$ 1.2 million.	a. ICDF office in Paraguay, b. Ministry of Agriculture and Livestock, c. National University of Asunción, d. Secretariat of Social Action.	Fishing	US\$ 1.8 million	1/2010	12/2013

Assistance to rural populations affected by the food emergency due to the effects of the drought	2,151 indigenous families of the department of Boquerón receive food and support for the supply of purified water.	Secretariat of National Emergency	Humanitarian assistance	US\$ 200 mil	11/2012	12/2012
Floriculture Project	Establish a warehouse, a greenhouse for orchids, a training room and cold storage and irrigation systems.	a. ICDF office in Paraguay, b. Ministry of Agriculture and Livestock, c. Paraguayan Institute of Agricultural Technology, d. Investment and Exports Network (REDIEX)	Agro business	US\$ 2.1 million	1/2010	12/2013
Training program for health personnel	The program provides medical personnel from partner countries with one to three months of on-the-job training.	Ministry of Foreign Affairs	Humanitarian assistance	NT\$18.9 million (US\$ 640 mil)	1/2012	12/2014
Mobile Medical Mission	Taiwanese doctors and medical staff working for these missions not only treat patients, they also work with local medical professionals, offering clinical training, demonstrations and technical exchanges.	Hospital of Clinics	Humanitarian assistance	NT\$11.3 million (US\$ 400 mil)	1/2011	12/2011

Source: Own elaboration based on information from ICDF website.

