



U.S.-Taiwan Trade Relations

Taiwan is a developed, dynamic, and competitive economy that is highly dependent on global trade. Taiwan has fared relatively well during the recent U.S.-People’s Republic of China (PRC) trade conflict as a key link in global technology supply chains, supplying both U.S. and PRC markets. Looking ahead, Taiwan faces significant constraints as it seeks to overcome domestic challenges (such as labor mismatches and energy shortages), generate new sources of growth in emerging technologies, and diversify away from a growing economic dependence on the PRC. Amidst U.S.-PRC tensions, Taiwan is walking a fine line in trying to remain central to both U.S. and PRC technology markets, including supplying PRC companies like Huawei. Central to Taiwan’s ambitions is the Taiwan government’s effort to start talks with the United States on a free trade agreement (FTA) in the hope that an FTA might not only increase bilateral trade but potentially open the door to other FTAs and trade diversification for Taiwan. Also see CRS In Focus IF10275, *Taiwan: Select Political and Security Issues*, by Susan V. Lawrence.

Taiwan’s Economy

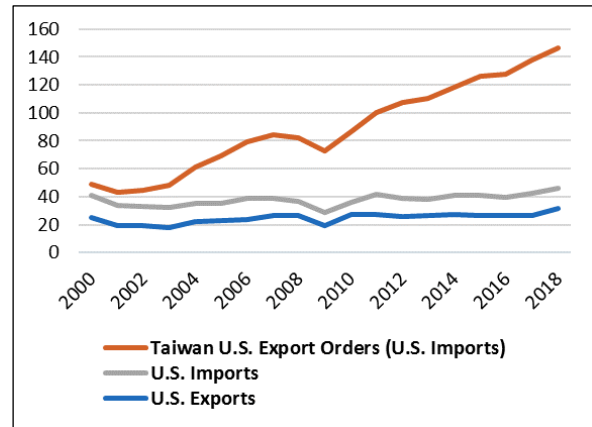
Taiwan (population 23.6 million), boasted a nominal gross domestic product (GDP) of \$603 billion in October 2019, making it the world’s 22nd-largest economy. The World Economic Forum ranked Taiwan as the world’s 13th-most competitive economy in 2018, and the World Bank ranked Taiwan the 15th-best economy in ease of doing business. Taiwan’s GDP composition by sector is 2% agricultural, 36% industrial, and 62% services. Main industries include electronics, information communications technology (ICT), semiconductors, petrochemicals, textiles, steel, machinery, cement, food processing, autos, and pharmaceuticals. Taiwan’s 2018 exports of goods and services totaled \$393 billion (equivalent to 67% of GDP), ranking Taiwan as the 21st-largest trading economy (goods and services). Taiwan’s real GDP growth averaged 2.9% from 2009 to 2018; the International Monetary Fund projects that rate to average 2.1% over the next five years.

U.S.-Taiwan Commercial Ties

The United States and Taiwan share deep economic ties. Taiwan is the United States’ 11th-largest merchandise trading partner (total trade valued at \$77 billion), 15th-largest export market (at \$31 billion), and 13th-largest source of imports (at \$46 billion), according to U.S. 2018 data. In 2018, U.S. agricultural exports to Taiwan totaled \$3.9 billion and U.S. service exports totaled \$10 billion. U.S. trade data understates the importance of Taiwan to the U.S. economy because it does not include production by Taiwan firms that manufacture in the PRC for U.S. export. In 2018, Taiwan firms received \$146 billion in U.S. export orders (a 199% increase over 2000); official U.S. data showed \$46 billion in Taiwan merchandise exports to the United States. The United States is the largest source of Taiwan’s export orders, accounting for 29% of the total in

2018. Taiwan’s exports to the United States rose by 21% over the same timeframe, as some PRC-based production shifted to Taiwan to avoid U.S. duties on Chinese imports.

Figure I. U.S.-Taiwan Merchandise Trade 2000-2018
(\$ in billions)



Source: CRS with data from the U.S. Bureau of Economic Analysis and the Taiwan Ministry of Economic Affairs.

Note: Data not adjusted for inflation.

U.S. foreign direct investment (FDI) stock in Taiwan through 2018 (on a historical-cost basis) totaled \$17.5 billion, while Taiwan’s FDI stock in the United States totaled \$10.6 billion. Taiwan’s FDI stock in the United States is higher than official figures indicate, because U.S. data does not include Taiwan investment via free ports that are tax and duty free, such as Hong Kong and the British Virgin Islands. Taiwan runs a trade surplus with the United States and the PRC, and is a top holder of foreign exchange reserves (\$474.1 billion as of November 2019), a status that allows Taiwan to stabilize exchange rates, maintain liquidity, and invest domestically and overseas.

Taiwan’s government has expressed a strong interest in starting FTA talks with the United States, but so far the Trump Administration has been noncommittal. In December 2019, 161 Members of Congress signed a letter asking the U.S. Trade Representative to work toward FTA talks with Taiwan. The American Chamber in Taipei has called on the Taiwan government to remove trade policy irritants and improve prospects for talks, noting in its 2019 White Paper that U.S.-Taiwan relations appear better than in decades. In addition to increasing two-way trade and investment, a U.S.-Taiwan FTA would likely strengthen Taiwan’s overall U.S. ties and help diversify Taiwan’s commerce away from the PRC, giving other countries cover to resist pressure from Beijing and pursue similar agreements with Taiwan. Taiwan has also reportedly sought FTAs and investment agreements with Australia, the European Union, Japan, and the United Kingdom.

U.S.-Taiwan TIFA

The United States and Taiwan concluded a Trade and Investment Framework Agreement (TIFA) in 1994. TIFA talks, usually held on an annual basis, serve as a high-level forum to discuss major trade and investment issues and disputes and expanded commercial ties. Topics generally include market access, intellectual property rights protection, labor and environmental issues, and trade capacity building. USTR has indicated in the past that TIFA talks could lead to FTA talks.

Taiwan's agricultural trade barriers, particularly a decision in 2007 to ban U.S. pork and beef that contain ractopamine (a feed additive that promotes leanness), have long been a source of friction in U.S.-Taiwan economic relations. The issue prompted the United States to suspend TIFA talks between 2007 and 2013. Talks resumed in March 2013, after Taiwan agreed to allow some beef imports containing ractopamine, based on a maximum residue limit (MRL), although it continued to bar U.S. pork. Major U.S. pork producers, however, recently announced a halt in the use of ractopamine in their supply chains to facilitate exports to the PRC, which also bans ractopamine, potentially removing a key disagreement. Other U.S. concerns include:

- tariff-rate quotas on 16 agricultural products;
- motorcycle and soda ash tariffs;
- country-specific quota regime for rice;
- restrictions on biotechnology, genetically-modified agricultural goods, and medical devices; and
- rules on digital trade, energy, and tourism.

Taiwan's Economic Challenges

Taiwan faces risks of declining competitiveness and growing economic dependence on the PRC. Taiwan's share of global merchandise exports fell from a peak of 2.5% in 1993 to 1.6% in 2018. Domestically, the Taiwan government is facing stagnant wages; an aging population; and land, power, and water shortages. Taiwan also faces a talent mismatch. While some university graduates have trouble finding jobs, industry complains that Taiwan lacks particular technical talent. Overall unemployment is low at 3.8% (September 2019), but the rate for those aged 20-24 is more than three times higher (11.7%). Taiwan's current government has vowed to phase out the use of nuclear power, but does not appear to have identified alternative power sources to meet projected demand, including the needs of a "5+2" plan to boost innovation and manufacturing in a range of emerging industries, including advanced manufacturing, biotech, green energy, and defense. The program involves at least \$58 billion in government outlays for research, companies, and infrastructure. The Taiwan government has also introduced tax policies and loans to incentivize semiconductor and ICT production in Taiwan and liberalized rules to allow short-term hiring of foreign nationals to address talent gaps.

Cross-Strait Issues

Taiwan officials assess that declining competitiveness is due in part to new FTAs that exclude Taiwan (in large part because of pressure from Beijing) and obstacles Taiwan faces in joining and participating in international organizations. U.S. withdrawal from the Trans-Pacific Partnership (TPP) in 2017 hurt Taiwan's ability to join the TPP and an amended agreement, TPP-11, that was signed

without the United States and Taiwan. Since a 1994 U.S. Taiwan Policy Review, U.S. policy has been to support Taiwan's membership in international organizations for which statehood is not a requirement, and to encourage "meaningful participation" for Taiwan in organizations for which statehood is a requirement. Taiwan is a member of the World Trade Organization, the Asian Development Bank, and the Asia-Pacific Economic Cooperation forum, all as an economy or a separate customs territory, not a state. The PRC actively works to restrict Taiwan's participation; recently, it has reportedly tried to prevent the World Bank from hiring Taiwan passport holders.

Taiwan is dependent on commerce with the PRC, even as some of those ties support U.S. trade because of Taiwan manufacturing in the PRC that supports U.S. exports. In 2018, 41% of Taiwan's goods exports went to mainland China and Hong Kong. The PRC is also Taiwan's largest destination for FDI. The Taiwan government estimates that 405,000 citizens—2.4% of Taiwan's working population of 17.1 million citizens—were working in the PRC as of 2017. Current Democratic Progressive Party President Tsai Ing-wen has sought to deepen ties in Southeast and South Asia, while keeping PRC ties stable. Tsai has publicly opposed Beijing's proposed "one country, two systems" framework for Taiwan and publicly supported protestors in Hong Kong. The PRC has sought to pressure Tsai economically by restricting tourism. (Between 2015 and 2018, Taiwan arrivals from the PRC fell by 36% from 4.2 to 2.7 million.) The opposition Kuomintang (KMT) party contends that closer economic ties have benefited Taiwan economically and reduced political tensions with Beijing. Taiwan's former KMT president, Ma Ying-jeou (in office 2008-16), accelerated liberalization of direct trade, transportation, and postal links and negotiated an Economic Cooperation Framework Agreement in 2010. Taiwan capitalized on favorable PRC ties in 2013 to conclude trade agreements with New Zealand and Singapore but relations with Beijing soured in 2014 when a proposed services trade deal with the PRC led to widespread protests in Taiwan, forcing Taiwan's Legislative Yuan to suspend a vote.

National Security Issues

U.S. actions to address national security concerns regarding PRC technology policies and espionage are spotlighting the potential risks of U.S. technology transferring to the PRC via Taiwan. In November 2018, the U.S. Department of Justice charged a Taiwan semiconductor foundry company, UMC, and three affiliated individuals for an alleged scheme to steal trade secrets related to dynamic random access memory (DRAM) from Micron, an Idaho-based semiconductor company on behalf of a PRC state firm, Fujian Jinhua Integrated Circuit Co., Ltd. The theft involved knowhow licensed by Micron to an affiliate in Taiwan that was then transferred to UMC and Fujian Jinhua in the PRC. The U.S. administration has also reportedly asked the Taiwan government to restrain Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest contract chipmaker, from selling semiconductor chips to Huawei.

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