

A U.S.–Taiwan Free Trade Agreement in 2020

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KEY TAKEAWAYS

After negotiating new trade deals with Mexico, Canada, China, and Japan, 2020 is a perfect year to begin negotiations for a U.S.–Taiwan free trade (FTA) agreement.

China is increasing pressure on governments to disregard Taiwan in international organizations, and is trying to make Taiwan's economy more dependent on Beijing.

As the Trump Administration seeks to prioritize the Indo–Pacific region, it must engage with Taiwan. One way to do so is to begin negotiations for an FTA.

The stars are aligning to make 2020 the perfect year to start negotiations between the U.S. and Taiwan for a comprehensive free trade agreement (FTA). With the Trump Administration having made significant progress on three of its trade priorities—the U.S.–Mexico–Canada Agreement, phase one of the U.S.–China Economic and Trade Agreement, and the U.S.–Japan Trade Agreement—the U.S. can finally make trade and economic negotiations with Taiwan a priority. The same can be said on the other side of the Pacific, as Taiwan is currently in a honeymoon phase after having just completed presidential and legislative elections.

U.S. and Taiwanese officials should begin negotiating a comprehensive FTA as soon as possible—before Washington falls into the politics of its own presidential election cycle. The Trump Administration should also establish a high-level economic dialogue with

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Taiwan to address issues that might fall outside of trade negotiations, such as cyber-espionage threats, labor markets, and energy supply.

A Honeymoon Period

Now is the perfect time to begin negotiations for an FTA. President Tsai Ing-wen was just re-elected on January 11, 2020, to serve as Taiwan's 15th-term president. Taiwan should expect several months of political stability through this honeymoon period. President Tsai's party, the Democratic Progressive Party, also managed to maintain the largest share of seats (61 of 113) in Taiwan's legislative body, the Legislative Yuan. And there are some indications that she plans to use her political capital early on to remove long-standing obstacles—particularly around beef and pork—to an FTA.

In the U.S., there is generally a good amount of support for Taiwan from both the Administration and Congress. The Trump Administration has been following through with needed arms sales to the island nation. Meanwhile, the last two Congresses have passed a number of pro-Taiwan bills, including the Taiwan Travel Act and the Asia Reassurance Initiative Act of 2018.¹ In 2019, the House passed the Taiwan Assurance Act, and both the House and Senate passed resolutions re-affirming the 40-year-old Taiwan Relations Act.

On December 19, 2019, the two co-chairs of the House Taiwan Caucus, along with 159 other representatives, sent a letter to the U.S. Trade Representative (USTR) suggesting it begin negotiations for a U.S.–Taiwan FTA.²

These efforts are welcome given the increasing influence that China has in pressuring countries to disregard Taiwan's participation in international organizations and regional trade pacts. At the same time, Beijing continues to increase its own efforts to make Taiwan's economy more dependent on China. In November 2019, China's Taiwan Affairs Office announced 26 new measures to incentivize Taiwanese investment in China's fifth-generation (5G) telecommunications development, high-tech research and development, and other sectors, such as tourism, finance, and agriculture.³

U.S.–Taiwan Economic Relations

The U.S. and Taiwan have a robust history of trade and investment. In 2018, Taiwan was the U.S.'s 12th-largest trading partner for goods and services, importing and exporting a total worth \$95.4 billion.⁴ Both countries mostly trade capital and industrial goods to complement each other's manufacturing sectors.

Taiwan was the 15th-largest foreign investor in the U.S. last year, and direct investments from Taiwan have reached \$10.6 billion on a historical-cost basis, making it the 25th-largest foreign investor in the U.S.⁵ Almost half of investments from Taiwan are in U.S. manufacturing. In 2018, U.S. direct investment in Taiwan on a historical-cost basis reached \$17.5 billion, making it the 28th destination for U.S. direct investment. Almost a fifth of U.S. investment is in Taiwan's electronics manufacturing. Meanwhile, U.S. and Taiwanese enterprises together support almost 100,000 jobs on both sides of the Pacific.⁶

Taiwan annually generates more than \$2 billion in intellectual property revenue for U.S. exporters.⁷ It is a growing destination for U.S. exports of crude oil and petroleum products with 160,000 barrels per day in 2018, a 600 percent increase from 2017.⁸ Semiconductor companies, such as the Taiwan Semiconductor Manufacturing Company (TSMC), are some of the most renowned in the world, working with U.S. firms like Apple, Qualcomm, and Alphabet.

According to The Heritage Foundation's *2019 Index of Economic Freedom*, Taiwan has the 10th-freest economy in the world—a higher ranking than that of the U.S. With an overall freedom score of 77.3 of 100, Taiwan excels at allowing businesses to operate free from excessive regulations, protecting property rights, and supporting strong fiscal health. Taiwan's overall score is brought down by its lower labor, investment, and financial freedoms.

Hurdles to an FTA

Given the current political stability in Taiwan, the strong support for U.S.–Taiwan relations in Congress, and the robust history of U.S.–Taiwan economic relations, it should not be hard to negotiate an FTA. But there are some outstanding issues that would need to be resolved as a part of trade negotiations.

Taiwan continues to restrict the import of certain U.S. beef and pork products.⁹ This has been the leading issue of contention between U.S. and Taiwan trade officials, and often a complication in convening the Trade and Investment Framework Agreement dialogue. Recent deals by the U.S. with China and Japan to allow more U.S. beef and pork imports puts additional pressure on Taiwan to address these restrictions. While resolution of this issue should not stop FTA negotiations from happening, to date, it has been a critical part of successive U.S. Administrations' reluctance to negotiate on trade with Taiwan. An effort by the new Taiwanese government and Legislative Yuan to address it would go a long way to promoting the opening of FTA talks.

Taiwan is also in danger of making it on the U.S. Treasury Department's list for monitoring economies it believes may be interfering in exchange rates.¹⁰ And, Taiwan runs a persistent trade surplus with the U.S.—a particularly acute (albeit misguided) global concern of the Trump Administration.

Another hurdle in the way of a U.S.–Taiwan FTA may be the Trump Administration's preference for a second trade deal with China. As the U.S. plans to hold more trade negotiations with China, and start a new macro-economic dialogue, officials might put negotiations with Taiwan on the back burner in fear of disrupting U.S.–China negotiations.

It Is Time for a U.S.–Taiwan FTA

As the Trump Administration seeks to prioritize the Indo–Pacific, it is essential that the Administration engage with Taiwan. One way to work more with Taiwan is through an economic dialogue as well as trade negotiations. To that end, the Administration should:

- **Begin negotiations for a U.S.–Taiwan free trade agreement.** All voices from the U.S. government, from the economic to diplomatic, should be encouraging the Trump Administration to begin trade negotiations with Taiwan. President Tsai has already expressed her interest in a U.S.–Taiwan FTA.
- **Include negotiations on non-tariff barriers.** During FTA negotiations, the USTR and Taiwanese officials should focus more on non-tariff barriers than on tariffs. U.S. exporters face various restrictions to gaining market access in the industries of medical devices and pharmaceuticals, and services and investment, such as in financial services, telecommunications, and copyright protections.
- **Refuse to let U.S.–China trade negotiations threaten other U.S. trade priorities.** The economic relationship with China is significant, but stopping Chinese influence in U.S. decision making has long been a trademark of this Administration.
- **Establish a high-level economic dialogue with Taiwan.** There are some issues that fall outside of trade negotiations that are priorities for the U.S. Indo–Pacific Strategy. The U.S. and Taiwan should establish a high-level economic dialogue alongside trade negotiations.¹¹

An FTA with Taiwan is long overdue, and now is the perfect time to get it started.

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Endnotes

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