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Taiwan's New Economic Prospects with the U.S. and Beyond

2020 has given Taiwan unexpected opportunities for economic expansion and trade relations. A U.S.-Taiwan Free Trade Agreement (FTA) is gaining more momentum than ever. At the same time, the pandemic has exposed the vulnerability of global supply chains concentrated in China, which is expediting manufacturing migration, reshoring, and “decoupling” to various degrees. How is the bilateral FTA expected to progress? And how is Taiwan shaping up to be an important actor in the current shifting global economic climate? To answer these questions, [the Sigur Center's Taiwan Roundtable](#) featured Her Excellency Bi-khim Hsiao, Taiwan's Representative to the U.S. at the Taipei Economic and Cultural Representative's Office, with a panel of leading experts, including Rupert Hammond-Chambers, President of U.S.-Taiwan Business Council, and Ambassador Kurt Tong, former U.S. Ambassador for APEC and a Partner of The Asia Group, to explore the prospects of the U.S.-Taiwan economic relationship and Taiwan's future role in the global economy.

Progress in Economic Relations

Representative Hsiao led the discussion by highlighting recent developments in economic relations between the U.S. and Taiwan. In addition to being the 9th largest trading partner of the U.S., Taiwan is also the 7th largest importer of U.S. agricultural products. At the same time, bilateral investments have also been on the rise, as TSMC, a Taiwanese company that leads the world in semiconductor manufacturing, announced a 12 Billion dollar investment in Arizona, while Microsoft, Google, and Micron all made significant investments in Taiwan.

Moreover, bilateral economic relationship between the U.S. and Taiwan overcame a long-standing hurdle in August when President Tsai Ing-wen lifted market restrictions on the import of U.S. pork and beef. Despite accounting for a small percentage of bilateral trade, the import restrictions had been a persistent major stumbling block for closer economic relations, and its removal saw positive responses from the members of Congress and from business communities in both countries.

Finally, after the establishment of a new economic dialogue, the U.S. and Taiwan have signed a MOU for infrastructure financing while the two countries are engaging closely on new developments in the digital economy, medicine, and other supply chains. Representative Hsiao believes that Taiwan has a strong strategic imperative in pursuing a bilateral trade agreement for economic and political autonomy, as well as for national security, which are in line with U.S. interests, including the security of the Indo-Pacific region, the protection of technology supply chains, and the attraction of new investments into the American market.

Supply Chain Security and the Benefits of a Trade Agreement

With these shared interests in mind, Representative Hsiao emphasizes three main benefits of a U.S.-Taiwan trade agreement: ensuring U.S. supply-chain security, establishing a framework for future agreements, and enhancing the security of Taiwan and the stability of the Indo-Pacific region. First, given the current geostrategic context, a bilateral trade agreement will ensure that the supply chain of critical technologies - from information and communication technologies to medical devices - would flow directly between trusted and reliable partners. Second, a high quality comprehensive trade agreement can be seen as a model for future agreements for both countries by emphasizing fairness and reciprocity, as well as the protection of workers' rights, the environment, and intellectual property. Finally, given Taiwan's unique security considerations vis-a-vis China, a U.S.-Taiwan trade agreement would reduce the country's high degree of dependence on the Chinese market, thus enhancing the security of the country and the stability of Indo-Pacific region.

Rupert Hammond-Chambers echoes Representative Hsiao's comments by explaining Taiwan's crucial role in the global technology supply chain - especially in the production of semiconductors - and the importance of a trade agreement to address the supply chain vulnerabilities. Hammond-Chambers points out that while Taiwan's security threat from China has made the global technology supply chain vulnerable, China is also

highly reliant on the supply of Taiwanese semiconductors. Under the Trump administration, the U.S. ban on technology exports to certain Chinese companies has created a choke point in Huawei's supply chain because TSMC had stopped doing business with the Chinese company. A U.S.-Taiwan trade agreement would strengthen strategically valuable Taiwanese companies like the TSMC, thus reducing the threat from China and alleviating the vulnerabilities of the technology supply chains. Moreover, the trade agreement could also be the first step in expanding the supply chains toward South or Southeast Asia, which would further mitigate the current global reliance on Chinese manufacturing.

Kurt Tong agrees that Taiwan is a center of value-added in the high technology sector as well as an important source of capital and trade in the Western Pacific. Although a U.S.-Taiwan bilateral trade agreement may not necessarily be a "free trade agreement" due to the potential political problems carried by such narrative, Tong sees the agreement as a comprehensive cross-sectoral agreement that benefits the U.S. from trade, geo-economic, and policy innovation perspectives. First, a trade agreement is likely to increase bilateral investment, thereby increasing productivity and employment in both countries. U.S. investment in Taiwan has room for improvement since currently it is only one seventh of U.S. investment in China. A higher level of bilateral investment with Taiwan will improve efficiency for both countries, which in turn increases economic production and creates new jobs.

Second, a trade agreement with Taiwan will be a major step for the U.S. to reestablish its economic presence in the Western Pacific. In the last few years, the U.S. has undermined its presence in the region by withdrawing from the Trans-Pacific Partnership. It is in the interest of the U.S. to tie its economy more tightly to this fast-growing region, which will make the U.S. stronger and more competitive over the long run. The U.S.-Taiwan trade agreement is a feasible measure that would help restore momentum to U.S. trade and investment activities in the Western Pacific, allowing the U.S. to rebuild a greater presence in the region.

Finally, an agreement with Taiwan would also allow the U.S. to explore and experiment with innovations in trade policies. Taiwan has relatively few existing encumbrances, either in terms of domestic law or international obligations, on its trade policy, which means that there are limited rules preventing the country from pursuing innovation in trade policy formulation. This creates a possibility of experimentation with new policy tools such as the carbon tariff or other cutting edge approaches in a U.S.-Taiwan trade agreement.

Economic Prospects

Policy uncertainties in Washington is likely to generate negative consequences for the potential of a trade agreement with Taiwan. Hammond-Chambers recalls that in recent years, unpredictable trade policies from Washington have negatively impacted Taiwanese companies' ability to make long-term business commitments. Regardless of who wins the 2020 U.S. election, future trade and technology policies in the U.S. remains uncertain at the moment.

Hammond-Chambers also warns that the size of the Chinese market is likely to influence the investment decisions of major corporations from Taiwan and the U.S., which may limit the potential effect of the U.S.-Taiwan trade agreement on mitigating the existing supply chain vulnerabilities. Addressing supply chain vulnerabilities will be a prolonged process, while the global economy may split into a "red supply chain" in China and a "non-red supply chain" outside China. Corporations from Taiwan and the U.S. are likely to try their best to gain from both, but keeping in mind risks of over-reliance on China.

Besides economic concerns, the attitude of China toward the agreement is also a factor. Tong stresses that the U.S.-Taiwan trade agreement should not be presented as a change in the one China policy. The agreement is not a non-ambiguous security guarantee for Taiwan and does not obligate the U.S. one way or the other on arms sales. Given the importance of Taiwan's security, it is best kept separate from a trade agreement to maximize the latter's success.

Looking forward, Tong expects the next step of the negotiation between the U.S. and Taiwan to be detailed exploratory talks to examine the pros and cons as well as the specific terms of a potential agreement. This is likely to be a protracted process, as both parties will be reviewing the positions of each side and evaluating the specific concerns and items.

The difficulties of lifting the market restrictions on U.S. beef and pork is a perfect demonstration of the challenges in the negotiation process, which involves complex legislative processes and domestic political considerations in the U.S. and in Taiwan. Although legislative bodies on both sides have shown strong support toward reaching a bilateral trade agreement, a time-line for the agreement remains uncertain, especially considering the potential changes in the executive branch in Washington.

In the aftermath of the pandemic, Tong foresees that the next administration is likely to put a heavier emphasis on domestic policies, but hopes that the next President will be alert to the

opportunities and the challenges in the international arena. While Hammond-Chambers speculates that Taiwan issues and technology policies could be two areas where Beijing would try to exert serious pressures on Washington when a potential Biden administration seeks to re-calibrate U.S.-China relations, Tong takes a different view noting that both Republicans and Democrats are unlikely to be susceptible to any pressure from Beijing.

Optimistic Outlook

Despite these challenges, the recent progress in bilateral economic relations and the agreement's wide range of benefits provide an optimistic outlook for a U.S.-Taiwan trade agreement. The House of Representatives and the Senate have issued joint letters in support of a trade agreement with Taiwan, demonstrating uncharacteristic bipartisanship. Meanwhile, Taiwan's stable and popular leadership, its strong rule of law, and the size of the Taiwan market will all contribute positively to the prospects of an agreement. While robust political support in both countries have established a solid foundation for future negotiations, policy preferences of the next U.S. administration will be the decisive factor determining the potential progress of the U.S.-Taiwan trade agreement.

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About the Rising Powers Initiative and Sigur Center for Asian Studies

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