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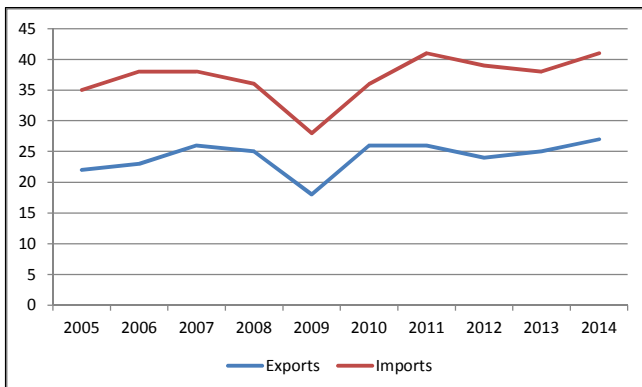
U.S.-Taiwan Trade Relations

Overview

With a population of 23 million people, Taiwan has evolved to become a highly-developed, dynamic, and globally-competitive economy. In 2014, Taiwan's gross domestic product (GDP) on a purchasing power parity (PPP) basis was \$1.0 trillion, making it the world's 22nd largest economy. Its per capita GDP on a PPP basis (a common measurement of living standards) was \$43,540, 18% greater than Japan's and about 80% that of the United States. Taiwan is the world's 18th largest merchandise exporter (at \$322 billion) and the 17th largest merchandise importer (at \$273 billion). *The World Economic Forum's 2014-2015 Global Competitive Index*, which assesses the competitiveness of 144 economies, based on factors that determine productivity growth, ranked Taiwan 14th (the United States ranked third).

U.S. trade data indicate that in 2014, Taiwan was the United States' 10th largest merchandise trading partner (at \$67.4 billion), 14th largest export market (\$26.8 billion), and 12th largest source of imports (\$40.6 billion). The top three U.S. exports to Taiwan in 2014 were semiconductors and other electronic components, aerospace products and parts, and industrial machinery. The top three U.S. imports from Taiwan were semiconductors and other electronic components, communications equipment, and computer equipment. From 2005 to 2014, U.S. exports to Taiwan grew by 21.8%, compared to a 79.5% increase in total U.S. exports, while U.S. imports from Taiwan increased by 16.7%, compared to a 40.4% rise in total U.S. imports.

Figure 1. U.S.-Taiwan Merchandise Trade: 2005-2014
\$ in billions

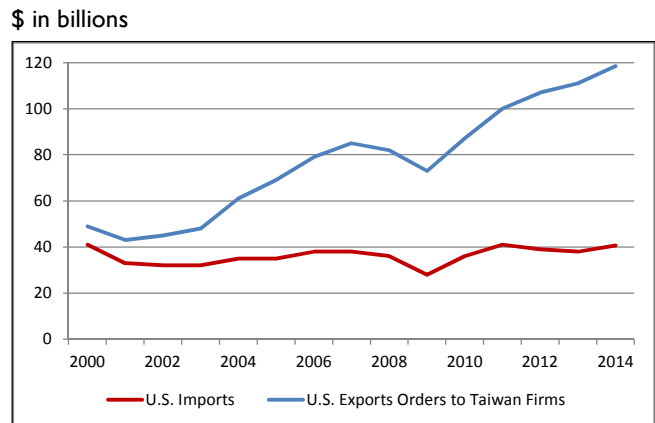


Source: U.S. International Trade Commission (USITC).

U.S. data on trade with Taiwan may understate the importance of Taiwan to the U.S. economy because of the role of global supply chains. For example, many of the consumer electronic products developed by Apple Inc. (such as iPads and iPhones) are assembled in China by

Taiwanese-owned firms. Taiwan has moved a significant level of its labor-intensive manufacturing overseas, especially to China. This is reflected in Taiwan's data on export orders received by its firms from abroad. That data indicate that the percentage of export orders manufactured abroad rose from 13.3% in 2000 to 52.6% in 2014; and for information and communications technology products (such as computers), this rose from 24.9% to 90.2%. Taiwanese government data indicate that its manufacturing firms received export orders from the United States worth \$118.5 billion in 2014, which was nearly three times larger than official U.S. data on its imports from Taiwan in 2014. This indicates that U.S.-Taiwan commercial ties are significantly greater (and more complex) than are reflected in bilateral trade data.

Figure 2. Comparison of U.S. Export Orders Placed with Taiwanese Firms and U.S. Merchandise Imports from Taiwan: 2000-2014
\$ in billions



Source: Taiwan export order data are from the Taiwan Ministry of Economic Affairs. Data on U.S. imports are from the USITC.

According to Taiwanese data, in 2014, the United States was Taiwan's second largest trading partner, third largest destination of its exports, and third largest source of its imports. The United States is the largest source of foreign direct investment (FDI) inflows into Taiwan. The total stock of U.S. FDI in Taiwan through 2014 was \$23 billion.

Taiwan's Efforts to Expand its Trade Ties

Taiwan's economy is heavily dependent on trade. In 2014, Taiwan's exports of goods and services were equal to 70% of its gross domestic product (GDP). Yet, Taiwan's share of global merchandise exports fell from 2.3% in 2000 to 1.6% in 2014. Taiwanese officials attribute this trend in part to the proliferation of bilateral and regional free trade agreements (FTAs), especially among other major Asian economies (such as South Korea). Taiwan is currently not a party to these FTAs, in large part, it is believed, because China often pressures other countries to avoid signing trade

deals with Taiwan. Taiwanese officials have expressed concern that its exclusion from FTAs could hurt the long-term competitiveness of many Taiwanese industries, which could reduce trade flows and diminish economic growth. For example, countries with FTAs often reduce most or all of their tariff levels to zero. If Taiwan is not an FTA member, its products will be assessed the non-FTA tariffs, which could put them at a competitive disadvantage vis-à-vis the FTA members. Taiwan has sought to expand commercial ties with its major trading partners and gain access to various FTAs.

Taiwan-China Economic Ties

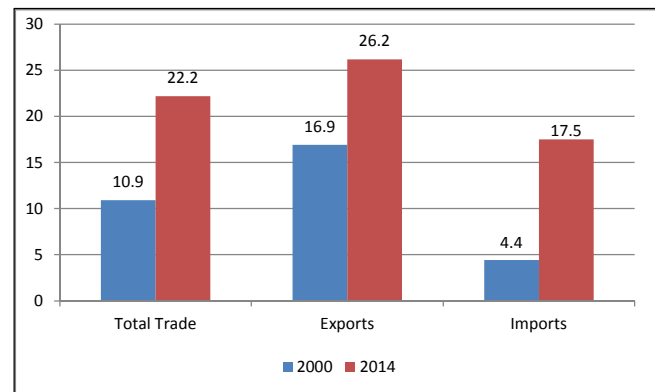
Taiwan has increased its commercial ties with China in order to help its firms take advantage of the opportunities arising from China's large and rapidly-growing economy and to help reduce political tensions with China (including the hope that by expanding economic ties, China will lessen its opposition to Taiwan's attempts to negotiate FTAs). After coming into office in 2008, Taiwan President Ma Ying-jeou sought to expand cross-strait commercial ties by lifting restrictions on direct trade, transportation, and postal links. He further proposed moving toward a comprehensive economic cooperation agreement with China, which was eventually named the Economic Cooperation Framework Agreement (ECFA), described as a plan to significantly liberalize trade and investment barriers over time. ECFA negotiations began in January 2010 and concluded in June 2010. The ECFA identified four main agreements that would be negotiated: trade in goods, trade in services, investment, and dispute settlement. The ECFA also included an "early harvest" agreement to eliminate tariffs on various products within three years. A Cross-Strait Bilateral Investment Protection and Promotion Agreement was reached in 2012 and a Cross-Strait Trade in Services Agreement (TiSA) in 2013.

Following the signing of the ECFA, press reports indicated that China appeared to be less opposed to Taiwan seeking trade agreements with other countries, which Taiwan often refers to as "economic cooperation agreements." Taiwan concluded such agreements with New Zealand and Singapore in 2013. Taiwan also signed a bilateral investment agreement with Japan in 2011. Trade relations between Taiwan and China soured somewhat during the spring of 2014 when consideration of the cross-straits TiSA agreement by Taiwan's Legislative Yuan (LY) led to widespread protests and forced the government to suspend a vote on TiSA. Part of the opposition to the TiSA appears to have been generated by concerns among some groups in Taiwan that the agreement could negatively impact various services sectors in Taiwan or that some sectors would become dominated by Chinese state-owned firms. This attitude may also reflect wider concerns by some Taiwanese over the impact growing economic integration with China may be having on Taiwan's economy (which many see as a double-edged sword). Taiwan's economy has been sluggish in recent years and a significant amount of labor-intensive manufacturing has moved to China. In addition, wages in Taiwan have been relatively flat, resulting in a growing brain drain of workers in various technology sectors from Taiwan to China and other parts of Asia. After the LY put

the TiSA on hold, cross-strait talks on a goods agreement were temporarily suspended. In December 2014, President Ma publicly complained that China was again attempting to block Taiwan's efforts to negotiate FTAs.

China is a large and rapidly growing trading partner for Taiwan, enhanced in part by the reduction of trade and investment barriers since the signing of the ECFA in 2010. In 2014, China was Taiwan's largest trading partner, largest destination of exports, and largest source of imports. Taiwan's exports to China as a percent of its total exports increased from 16.9% in 1990 to 26.2% in 2014 (39.8% if exports to Hong Kong are included), while its imports from China as a share of total imports rose from 4.4% to 17.5%. The Taiwanese government puts the total level of Taiwanese FDI in China through 2014 at \$143 billion, but some analysts contend that it could be \$300 billion.

Figure 3. Taiwan's Trade with China as a Percent of its Total Trade: 2000 and 2014 (%)



Source: Taiwan Mainland Affairs Council.

Taiwan and the TPP

Taiwan has expressed interest in joining the Trans-Pacific Partnership (TPP) negotiations, which currently consist of the United States and 11 other countries, and has sought U.S. support. During a March 2014 hearing before the House Foreign Affairs Committee on U.S.-Taiwan Relations, Kin Moy, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, when questioned on Taiwan's possible inclusion in the TPP, stated: "We welcome their interest. I don't think the conversations have gone so far as to be, you know, pro or con. We're a long way from that. But we welcome their interest." U.S.-Taiwan commercial relations have been strained in recent years over Taiwan's sanitary and phytosanitary restrictions on imports of U.S. agricultural products, especially beef and pork. Some analysts warn that these issues could hurt U.S. support for Taiwan's inclusion in the TPP until these issues are resolved. Further complicating the issue are concerns by some analysts that China might try to prevent Taiwan from joining the TPP through political pressure on other TPP members.

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