



U.S.-Taiwan Trade Relations

Taiwan is a top U.S. trade partner and a key link in global technology and manufacturing supply chains, supporting both the U.S. and China markets. Taiwan’s economy is highly dependent on global trade, with exports accounting for almost 70% of gross domestic product (GDP). Taiwan faces economic challenges, such as labor mismatches and energy and water shortages, and is seeking to generate growth in emerging technologies (e.g., biotechnology) and semiconductor research, design, and fabrication. Taiwan is seeking to reduce its economic dependence on the People’s Republic of China (PRC or China), including through trade diversification and on-shoring of some production. Central to these efforts are actions by both the U.S. and Taiwan governments to deepen trade, investment, and technology ties. Also see CRS In Focus IF10275, *Taiwan: Political and Security Issues*, by Susan V. Lawrence.

Taiwan’s Economy

Taiwan (population 23.4 million) is the world’s 21st-largest economy, with a 2021 nominal GDP of \$759.1 billion. The World Economic Forum ranks Taiwan as the world’s 12th most competitive economy. Taiwan’s GDP composition by sector is 2% agricultural, 37% industrial, and 61% services. Main industries include electronics, information communications technology (ICT), semiconductors, petrochemicals, textiles, steel, machinery, cement, food processing, autos, and pharmaceuticals. In 2021, Taiwan’s total trade in goods reached \$792.2 billion (excluding re-exports and re-imports for processing trade).

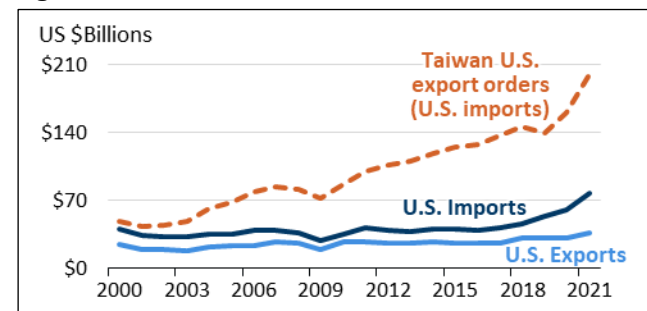
Taiwan faces risks of declining competitiveness as it grapples with stagnant wages; an aging population; land, power, and water shortages; and gaps in certain technical talent. Unemployment is low at 3.64%, but the rate for those aged 20-24 is 12.8%. Taiwan is seeking to phase out nuclear power, but it has not identified viable alternatives. Taiwan’s “5+2” plan aims to boost targeted industries—smart and advanced manufacturing, biotechnology, renewable energy, the recycling industry, and defense—through \$58 billion in subsidies; tax incentives and loans for innovation and production; and relaxed restrictions for the short-term hiring of foreign nationals to fill talent gaps. In March 2021, Taiwan’s leading foundry, Taiwan Semiconductor Manufacturing Corporation (TSMC) announced plans to invest \$100 billion over three years to expand its advanced semiconductor R&D and production.

U.S.-Taiwan Commercial Ties

Taiwan is the United States’ 8th-largest merchandise trading partner (\$114.1 billion in total goods trade), 10th-largest export market (\$36.9 billion), and 7th-largest source of imports (\$77.1 billion), according to 2021 U.S. data when considering the European Union (EU) as one trading partner. U.S. agricultural exports to Taiwan in 2021 were \$3.9 billion. U.S. service exports to Taiwan between January and September 2021 totaled \$7.4 billion. Two-way

goods trade grew by 25% in 2021 (over 2020), as trade recovered from COVID-19 pandemic supply chain disruptions. Taiwan’s exports to the United States have been on an upward trend, and grew by 69% between 2018 and 2021. U.S.-Taiwan supply chains also involve a significant amount of production by Taiwan firms in the PRC for export to the United States. In 2021, Taiwan firms received \$200.1 billion in U.S. export orders, a figure that includes production in and outside of Taiwan. (Figure 1).

Figure 1. U.S.–Taiwan Goods Trade 2000-2021



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

U.S. foreign direct investment (FDI) stock in Taiwan through 2020 (on a historical-cost basis) totaled \$31.5 billion, while Taiwan’s FDI stock in the United States totaled \$13.7 billion, based on U.S. data. (U.S. data does not include investments structured through Hong Kong and tax havens, such as the British Virgin Islands.) Taiwan is a top global holder of foreign exchange reserves—\$548.4 billion as of December 2021—arguably allowing Taiwan to stabilize exchange rates, maintain liquidity, and invest. Nearly half of Taiwan’s reserves consist of U.S. Treasuries (\$248.4 billion, as of November 2021). In 2020 and 2021, the Department of Treasury placed Taiwan on its monitoring list of trading partners that merit attention to their currency practices and macro-economic policies. Treasury cited Taiwan’s large trade account surplus and foreign exchange reserves, and in April 2021, initiated talks to “develop a plan with specific actions to address the underlying causes of Taiwan’s currency undervaluation.”

Cross-Strait Ties

The PRC is Taiwan’s largest trading partner (42% of Taiwan’s goods exports went to China and Hong Kong in 2021) and FDI destination. The Taiwan government estimates that 242,000 of its citizens worked in the PRC in 2020. Since 2016, the Taiwan government has offered incentives for firms to diversify to other parts of Asia, and, since 2018, has encouraged some on-shoring in response to U.S. tariffs on PRC goods and growing risks in China. Growing attention is focused on the potential risks of PRC investments in and cyberattacks on Taiwan’s critical infrastructure (e.g., shipping, finance, media, and social

media). The PRC government reportedly has pressured Taiwan's trading partners and restricted tourism in response to President Tsai Ing-wen's opposition to China's "one country, two systems" framework and efforts to diversify Taiwan's economic ties. Taiwan arrivals from China fell from 4.2 to 2.7 million between 2016 and 2019, and fell to 111,000 in 2021 during the COVID-19 pandemic. Taiwan's opposition Kuomintang (KMT) party contends that PRC economic ties benefit Taiwan. Former KMT president, Ma Ying-jeou (in office 2008-2016), accelerated direct trade, transportation, and postal links and negotiated an economic cooperation agreement with the PRC in 2010. Relations soured in 2014 when a proposed services deal led to protests in Taiwan and suspended a legislative vote on it.

International Organizations

The United States supports Taiwan's membership in international organizations for which statehood is not required, and encourages Taiwan's "meaningful participation" in organizations for which statehood is required. Taiwan is a member of the World Trade Organization, Asian Development Bank, and Asia-Pacific Economic Cooperation forum, all as an economy or a separate customs territory, not a state. China actively works to restrict Taiwan's participation in these organizations.

Strengthening Economic Cooperation

The Trump Administration saw Taiwan as central to its efforts to counter China and sought to deepen bilateral economic ties, an effort the Biden Administration appears to be continuing. A new U.S.-Taiwan Economic Prosperity Partnership dialogue was held in 2020 and 2021 to discuss various issues, including 5G networks, supply chain resiliency, investment review, infrastructure, renewable energy, health, and science and technology. In June 2021, the two sides resumed talks under a 1994 Trade and Investment Framework Agreement (TIFA), a high-level forum to discuss market access issues. U.S. trade concerns include Taiwan's barriers to U.S. agriculture, biotech, medical devices, digital services, energy, and tourism. USTR indicated in the past that TIFA talks could lead to free trade agreement talks, but Taiwan's enactment of regulations in 2007 banning U.S. pork and beef that contain the feed additive ractopamine led USTR to suspend the talks. TIFA talks resumed from 2013 to 2016, after Taiwan allowed some beef imports, and, in June 2021, after Taiwan enacted new measures to ease pork and beef restrictions. Efforts in Taiwan's legislature and a December 2021 referendum failed to reverse the measures, with 49% of votes in favor of the ban and 51% opposed.

Prospects for a Free Trade Agreement

Taiwan's government has expressed strong interest in a free trade agreement (FTA) with the United States. Many Members have called on the USTR to prioritize such an effort, including a letter to USTR in July 2021 from 42 senators. Given the unofficial status of U.S. diplomatic relations with Taiwan, a comprehensive trade deal would require the White House to work with Congress to address potential complexities, but some experts assess that such a process is feasible. Taiwan concluded FTAs with New Zealand and Singapore in 2013. A U.S. trade agreement

arguably could encourage other countries to pursue similar deals with Taiwan. Taiwan has sought trade deals with the EU, Australia, Japan, and the United Kingdom, but its efforts have faced PRC pressure. In 2021, China imposed a de facto trade embargo on Lithuania (and goods with inputs from Lithuania) after it deepened ties with Taiwan. In 2021, Taiwan and the PRC applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Semiconductors

Some in Congress are concerned about how to sustain U.S. semiconductor leadership and mitigate supply chain risks. Almost 90% of global advanced semiconductor production is concentrated in Taiwan and South Korea. Taiwan firms also play key roles in chip design; R&D; materials (e.g., silicon wafers); and assembly, packaging, and testing. The PRC is targeting Taiwan's capabilities through licit and illicit means. In 2021, Taiwan authorities accused Bitmain, a PRC bitcoin chip developer, of using front companies to recruit engineers in Taiwan. In 2018, PRC state firm Fujian Jinhua Integrated Circuit reportedly worked with Taiwan's United Microelectronics Company to steal technology from U.S. firm Micron Technology. Hon Hai Precision, or Foxconn, a leading Taiwan contract electronics producer, has several joint ventures with the PRC government in chip design, equipment, and fabrication. Taiwan industry leader Richard Chang created China's leading foundry, SMIC (Semiconductor Manufacturing International Corporation), and is reportedly developing two new PRC foundries.

U.S. and Taiwan officials are seeking to jointly address supply chains, intellectual property theft, and export control concerns. In May 2020, TSMC announced plans to build a foundry in Arizona, a deal it negotiated with the Commerce Department. Also in May 2020, Commerce amended export control rules to restrict the sale to PRC-based Huawei Technologies Co. and its affiliates of chips made with U.S. technology or software, which includes TSMC's operations. Other PRC firms are not restricted; many design advanced chips with U.S. software and technology and produce them in Taiwan. In April 2021, *The Washington Post* reported that PRC firm Pythium was using U.S. software tools to design advanced chips that were produced at TSMC for use in China's hypersonic missile program. Commerce added Pythium to its Entity List; Taiwan's Alchip Technologies Ltd. said that it would halt sales to Pythium. Taiwan is considering amending its National Security Act to criminalize economic espionage and require government approval for the use of critical national technologies and trade secrets (and related PRC travel) outside of Taiwan.

Issues for Congress

Congress might consider whether and how to pursue U.S. FTA talks with Taiwan, given sustained congressional emphasis of this issue. Congress also might seek to ensure that collaboration and any FTA deal address key U.S. economic interests, such as lowering Taiwan's market barriers and increasing Taiwan's investment in the United States. Another issue before Congress is whether to more closely align U.S. and Taiwan technology policies, practices, and cooperation, in supply chains, R&D, standards, infrastructure, and finance.

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