



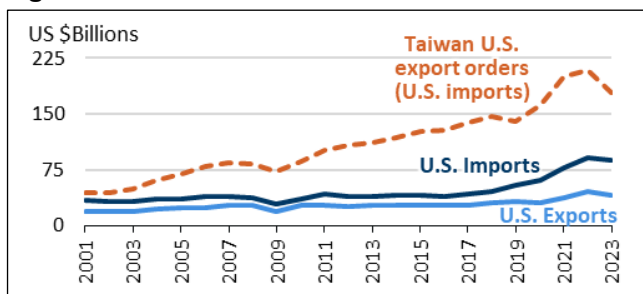
# U.S.-Taiwan Trade and Economic Relations

Taiwan is a top U.S. trade partner and a key link in global technology and manufacturing supply chains, supporting the United States, the People’s Republic of China (PRC or China), and other global markets. Taiwan’s economy is highly dependent on global trade; exports account for about 70% of gross domestic product (GDP). Taiwan’s policies are seeking to generate growth in emerging technologies and reduce its dependence on the PRC by diversifying trade and investment and on-shoring production. Central to these efforts are U.S. and Taiwan government actions to deepen commercial ties. Issues facing Congress include identifying and asserting its prerogatives over the U.S.-Taiwan 21<sup>st</sup> Century Trade Initiative negotiations and considering legislation that would prevent double taxation and boost two-way investment. Also see CRS In Focus IF10275, *Taiwan: Background and U.S. Relations*, and CRS In Focus IF12481, *Taiwan: Defense and Military Issues*.

## U.S.-Taiwan Commercial Ties

Taiwan is the United States’ 7<sup>th</sup>-largest merchandise trading partner (\$128 billion in total goods trade), 10<sup>th</sup>-largest export market (\$40 billion), and 8<sup>th</sup>-largest source of imports (\$88 billion), according to 2023 U.S. data. U.S. agricultural exports to Taiwan in 2023 were \$4.4 billion. U.S. service exports to Taiwan in 2023 were \$11.9 billion. Taiwan’s goods exports to the United States grew by 100% between 2018 and 2022, and fell by 4.5% in 2023 over 2022, with a drop in certain electronics, steel, and other items. (Taiwan’s 2023 total exports fell by 9.5% over 2022 mostly due to China’s slowdown.) (Figure 1).

Figure 1. U.S.–Taiwan Goods Trade 2000–2023



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

Note: U.S.-Taiwan supply chains involve Taiwan firms’ production in the PRC. In 2023, Taiwan firms received \$200.1 billion in U.S. export orders, which included Taiwan firms’ PRC-based production.

In 2023, U.S. direct investment stock in Taiwan was \$19.3 billion, and Taiwan’s direct investment stock in the United States was \$15.6 billion, according to the U.S. Bureau of Economic Analysis. (Data do not include investments made through Hong Kong and offshore tax havens, such as the British Virgin Islands.) Taiwan is a top global holder of foreign exchange reserves. As of June 2024, Taiwan held \$573.3 billion in reserves; Taiwan invested \$263.3 billion of its reserves in U.S. Treasuries as of May 2024.

## Taiwan’s Economy

**Population:** 23.4 million people.

**2023 nominal GDP:** \$753.6 billion (1.4% agriculture, 37.6% industry, 61% services); 22<sup>nd</sup> largest global economy.

**Unemployment:** 3.5% (12.4% ages 20-24; 6.1% ages 25-29).

**Main industries:** Electronics, semiconductors, information technology, petrochemicals, textiles, steel, machinery, cement, food, autos, and pharmaceuticals.

**Semiconductors:** About 90% of global advanced chip production is based in Taiwan. Taiwan firms are also active in chip R&D; materials (e.g., silicon wafers); design; and assembly, packaging, and testing. Policy debates in Taiwan include to what extent firms should build capacity in Taiwan, the PRC, the United States, and other markets.

**Competitiveness:** Switzerland’s International Institute for Management Development Business School ranks Taiwan as the world’s sixth most competitive economy. Taiwan is coping with stagnant wages; technical talent gaps; an aging population; and land, power, and water shortages. The government has taken some steps to phase out nuclear power, but alternatives at this time are limited. The Taiwan government’s “5+2” plan is boosting targeted industries—advanced manufacturing, biotechnology, renewable energy, recycling, and defense.

## Efforts to Strengthen Economic Ties

The United States and Taiwan have undertaken several efforts to address market barriers and bolster economic ties:

In June 2022, the United States and Taiwan launched a “U.S.-Taiwan Initiative on 21<sup>st</sup> Century Trade,” in parallel to the U.S.-led Indo-Pacific Economic Framework for Prosperity, which does not include Taiwan. The initiative covers trade facilitation, regulatory practices, anti-corruption, digital trade, technical standards, labor and environment, state-owned enterprises, nonmarket practices, and agriculture. The two sides reached their first agreement in May 2023 on key terms, services businesses criteria, trade facilitation, customs, transparency, and anticorruption.

In June 2021, the United States and Taiwan resumed talks last held in 2016 under a 1994 **Trade and Investment Framework Agreement (TIFA)**. Taiwan’s agricultural barriers (e.g., regulations banning imports of U.S. pork and beef that contain a leanness-enhancing food additive ractopamine) led the U.S. government to suspend TIFA talks between 2007 and 2013. U.S. concerns include digital services, biotech, medical devices, and energy barriers.

In 2020, the two sides launched a **U.S.-Taiwan Economic Prosperity Partnership Dialogue**. Annual meetings since 2021 have discussed official agenda items including supply chain resiliency; responding to PRC economic coercion; digital trade; 5G network security, research, and energy; tax barriers to investment; and clean energy. In February 2024, the U.S. International Development Finance Corporation

announced an agreement to co-invest with Taiwan in joint projects in the Indo-Pacific and Western Hemisphere.

Since 2020, the Treasury Department has listed Taiwan in its **currency monitoring report** for currency practices and macro-economic policies of concern, citing Taiwan's large trade account surplus and foreign exchange reserves. Since April 2021, Treasury has been working with Taiwan to address the causes of its currency undervaluation.

### Cross-Strait Economic Ties

The PRC is Taiwan's largest trading partner and investment destination. According to the Taiwan government, 35.2% of Taiwan's goods exports went to the PRC (including Hong Kong) in 2023, down from 42% in 2021, and an estimated 242,000 Taiwan citizens worked in the PRC in 2020.

Since 2016, Taiwan authorities have sought to diversify away from the PRC and address the risks of PRC investment in Taiwan's infrastructure (e.g., shipping, finance, and media). This follows the 2008-2016 period when the Kuomintang party negotiated direct trade, transportation, and postal links and a 2010 economic cooperation deal with the PRC. In 2014, a services deal prompted protests in Taiwan and suspension of a legislative vote on it.

Taiwan authorities' efforts to curtail industry's role in the PRC's semiconductor sector have been challenging. For example, Taiwan's Hon Hai Precision, an electronics firm, partnered with the PRC government in chip equipment, design, and production. Taiwan industry leader Richard Chang created China's leading foundry and is developing two others.

Beijing has pressured Taiwan's ruling Democratic Progressive Party over its opposition to the PRC's "one country, two systems" framework for cross-Strait relations and its efforts to diversify. The PRC uses incentives to attract Taiwan investment and immigration and pressures firms to constrain Taiwan's diversification efforts. Since 2023, the PRC has had a policy in its Fujian province to promote economic integration with Taiwan. In April 2023, the PRC opened a review of Taiwan's "trade barriers" that lasted through Taiwan's 2024 election cycle. Ahead of the vote, in December 2023, Beijing revoked tariff preferences for 12 petrochemical products. In June 2024, the PRC reinstated tariffs on 134 products it imports from Taiwan, arguing Taiwan's lack of reciprocity.

### Issues Facing Congress

**Free Trade and Tax Agreements.** Some Members have expressed interest in a possible free trade agreement (FTA) and income tax deal to increase two-way trade and investment and diversify Taiwan's commerce away from the PRC. Congress has sought to address the complexities posed by the unofficial status of U.S. relations with Taiwan. In January 2024, the House passed H.R. 7024, which includes the U.S.-Taiwan Expedited Double-Tax Relief Act and the U.S.-Taiwan Tax Agreement Authorization Act. The legislation aims to prevent double taxation and encourage Taiwan investment in the United States. It would amend the Internal Revenue Code of 1986 by providing special rules for the taxation of certain residents of Taiwan with income from sources in the United States.

Some experts say a U.S.-Taiwan FTA could lower barriers to U.S. agriculture and services, increase investment by Taiwan in the United States, and encourage other countries

to pursue similar deals with Taiwan. Some experts caution that the PRC might retaliate to such efforts with economic countermeasures. Taiwan concluded FTAs with New Zealand and Singapore in 2013 and reached an investment deal with Canada in 2023. Its efforts to seek trade deals with the European Union, Australia, Japan, and the United Kingdom prompted the PRC to exert pressure on those countries. In 2021, Beijing imposed a de facto embargo on Lithuania for enhancing Taiwan ties. In 2021, Taiwan and the PRC applied to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); Beijing has pressured CPTPP countries not to admit Taiwan.

**Trade Negotiations.** In August 2023, Congress passed P.L. 118-13 to address its concerns that the Administration was negotiating trade deals without Congress's agreement. The law asserts congressional ex-post approval of the May 2023 agreement with Taiwan (referred to above), sets conditions for its entry into force, and imposes consultative requirements for future agreements.

**Technology.** Congress is overseeing implementation of the CHIPS and Science Act of 2022 (P.L. 117-167) and efforts to promote investment in the United States, including two U.S. foundries by Taiwan Semiconductor Manufacturing Company Ltd. (TSMC). As the executive branch has taken steps to align with Taiwan on investment restrictions and export controls toward the PRC, some Members say that compromises with Taiwan (and South Korea) erode U.S. restrictions on the PRC and have urged stronger controls. S. 3110 would help Taiwan counter PRC targeting of its technology and infrastructure.

The Commerce Department granted Taiwan firms a one-year waiver from CHIPS Act restrictions on recipients of U.S. monies from investing in advanced semiconductors in China. TSMC says it has applied for Commerce's Validated End User program, which exempts some license requirements to export dual-use items to China.

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. The action restricted Huawei's ability to make chips in Taiwan. It does not restrict other PRC firms from making chips in Taiwan.

China has used firms in Taiwan to fabricate chips, recruit engineers, and steal technology, according to media reports. In 2022, Taiwan amended its National Security Act to criminalize economic espionage and require approval to use trade secrets and critical technologies outside of Taiwan.

**Taiwan's Role in International Organizations.** Some Members have pressed U.S. officials to counter PRC efforts to restrict Taiwan's global role. The House passed H.R. 540, which would "vigorously support" Taiwan's admission as a member of the International Monetary Fund. U.S. policy encourages Taiwan's membership in organizations for which statehood is not required. Taiwan is a member of the World Trade Organization, the Asian Development Bank, and the Asia-Pacific Economic Cooperation forum, which refer to it as an economy or a separate customs territory, not a state.

**Karen M. Sutter**, Specialist in Asian Trade and Finance

IF10256

## **Disclaimer**

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.