

April 11, 2022



Comments

Fair and Resilient Trade Pillar of an Indo-Pacific Economic Framework

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Submitted by:
US-Taiwan Business Council

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Introduction

The US-Taiwan Business Council (USTBC) thanks the Office of the United States Trade Representative for this opportunity to comment on the Fair and Resilient Trade Pillar of the proposed Indo-Pacific Economic Framework (IPEF). It is our understanding that IPEF is intended to promote U.S. interests and support economic growth in the Indo-Pacific region, while developing new approaches to trade policy that would advance a broad set of worker-centered U.S. priorities.

USTBC is a member-based organization that has worked since 1976 to foster bilateral trade and business relations with Taiwan and to support U.S. companies active in the market. We believe that Taiwan is a prime candidate to join the IPEF, not only as a top tier trading partner for the United States and a like-minded democracy, but also due to their crucial role in the global supply chain - particularly in technology.

Taiwan can help the United States achieve its goals with the IPEF, and should be a first-round consideration for joining this initiative.

Taiwan is an Important & Reliable Partner

A strong and prosperous Taiwan is in the economic and national security interests of the United States. In 2021, Taiwan was our 8th largest trading partner - ahead of India and just behind the UK. Trade in goods with Taiwan reached US\$114 billion last year, accounting for 2.5% of our overall global trade, and it is one of our most significant trading partners in the Indo-Pacific. Meanwhile, the U.S. is Taiwan's second largest trading partner behind only China.

Taiwan is also a critical node in the global technology supply chain, serving as a major hub for cutting-edge tech production and as a critical partner for U.S. technology companies. For example, Foxconn - a Taiwan tech company with large manufacturing investments across the globe - is the primary producer of flagship iPhones for Apple. Contract manufacturers of semiconductors and associated companies based in Taiwan also serve as key cogs in the U.S. supply chain - in particular Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest foundry chipmaker.

Taiwan and TSMC are significant partners to leading U.S. technology firms like Apple and Qualcomm, and they also serve in the same role to many U.S. allies globally. Note that Taiwan has been a willing collaborator with the Biden Administration in its attempts to address the global semiconductor shortage, and TSMC is currently standing up a sizable investment in Arizona that will add significantly to domestic U.S. semiconductor production capacity at advanced technology levels.

Taiwan is a reliable partner on trade and economic issues. It acceded to the World Trade Organization (WTO) in 2002, joined the Asia Pacific Economic Cooperation (APEC) in 1991, and signed a Trade and Investment Framework Agreement (TIFA) with the U.S. in 1994. Since co-founding the initiative in 2015, Taiwan has cooperated closely with the U.S., Japan, and others in the region on economic, business, and cultural issues through the Global Cooperation and Training Framework (GCTF). In addition, Taiwan has existing trade agreements with New Zealand and Singapore, works closely with other regional partners on trade and economic issues, and has stated its willingness to participate in other regional economic agreements. Taiwan has also engaged with the U.S. on the Economic Prosperity Partnership Dialogue (EPPD) since 2020, a dialogue that covers a number of economic issues similar to those stated as important to the IPEF.

Taiwan has already shown its support of other important U.S. initiatives, and that support underscores why aligning

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Taiwan closely with U.S. interests is so significant. For example, on February 25, 2022, Taiwan announced that it was joining international sanctions against Russia. Taiwan showed its commitment to the U.S. relationship – and to their relationship with other likeminded democracies - by implementing policies to pressure Russia to end its invasion of Ukraine. Taiwan has tightened access to its telecommunications network equipment, information technology platforms, and semiconductors, thereby weakening Russia’s economy and undercutting their ability to wage war. As subsystems produced by Taiwan could be used to produce Russian weapons, ending access will undermine the production of some Russian armaments. Additionally, TSMC has announced its withdrawal from the Russian market, severing access to Elbrus chips used to produce Russian military and security equipment.

In USTR’s announcement of this investigation, it mentions several key considerations for the IPEF, including transparency and good regulatory practices, environmental and climate issues, a focus on digital economy, along with labor and worker-centered issues. These are all issues on which Taiwan can serve as an important partner for the U.S., or where bringing Taiwan into the IPEF could serve as a mechanism for helping address lingering issues of concern.

- Over the last several years, Taiwan has taken steps to shore up its Intellectual Property Rights (IPR) and trade secrets legislation and enforcement. At the June 2021 TIFA Council meeting, the U.S. recognized Taiwan’s progress on enforcement of trade secrets protections, and lauded changes to Taiwan’s medical device approval process. Taiwan has continued its attempts to improve transparency and streamline its regulatory frameworks.
- Taiwan has expressed its commitment to green energy development, and its government has made renewable energy part of its economic strategy - targeting net zero emissions by 2050. Taiwan has the potential for working closely with others in IPEF on environmental and climate issues, particularly given its current leadership on wind-based energy generation and its ambitious goals for reducing its reliance on fossil fuels.
- Taiwan has already begun to focus on the changes necessary to promote digital industries, improve planning for digital governance and infrastructure, and assist in digital transformation in both the public and private spheres. Taiwan is standing up a Ministry of Digital Development later this year to spearhead these efforts, and the U.S. and Taiwan have already conducted several Digital Economy Forums to discuss these issues. It would make sense to build on the existing cooperation with Taiwan on digital economy transformation to enhance such efforts within the IPEF initiative.
- Taiwan has a strong, well-trained, and well-educated labor force, and the Taiwan government has attempted to strengthen worker rights by addressing issues such as gender equality and work-life balance. Yet Taiwan still faces issues surrounding its labor laws, in particular when it comes to the extensive pool of immigrant workers that support Taiwan’s technology companies. Some of these issues could potentially be addressed as part of the IPEF accession process.

Taiwan has proven to be an important and reliable economic partner for both the United States and for its regional neighbors, and should be part and parcel of the U.S. economic strategy in the Indo-Pacific. Its importance in the technology supply chain also places it near the top of those economies that can have a material impact when it stands with the U.S. on the global stage.

U.S. Trade Policy & Taiwan

U.S. trade policy toward Taiwan has been fraught with tension over several decades. Issues have included IPR protection, struggles regarding beef imports, and more recently complications surrounding pork trade and rules of origin regulations. The United States have issued preconditions for deepening ties in an attempt to pressure Taiwan into making specific changes. There also appears to be a bureaucratic reluctance to move forward on trade initiatives with Taiwan due to fears of disrupting cooperation with China.

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This U.S. strategy has weakened U.S.-Taiwan trade ties, while the preconditions offered by the U.S. appear to change as Taiwan addresses them. On August 31, 2020, Taiwan President Tsai Ing-Wen took the unprecedented step of unilaterally addressing some outstanding issues concerning pork and beef imports. President Tsai took a significant political risk with this decision, given domestic political opposition, and it represented a seismic shift that should have opened up the bilateral trade relationship to important and significant progress. Regrettably, the United States chose to underwhelm in response. While it did re-launch TIFA talks - a modest platform better suited to small and medium trading partners – it also appeared to move the goal posts on agriculture and rules of origin issues.

The U.S. refusal to engage with Taiwan - our major trading and technology partner - in meaningful trade liberalization has had a detrimental impact by depriving the U.S. of improved market access and by not binding Taiwan into the high labor and environmental standards expected of major U.S. economic partners. USTBC is unaware of any other major U.S. trading partner being similarly treated, and regrettably U.S. exporters have been hurt by the under-realized development of this important market. The United States can address some of this drift by pivoting on its approach to Taiwan and including it as a launch member of the IPEF.

Conclusions and Recommendations

U.S. strategic interests in the Indo-Pacific are interwoven with our support for the bilateral relationship with Taiwan - both when it comes to trade and the economy, as well as on national security. Taiwan plays a tremendously important role both as a market for U.S.-made goods and as a manufacturing and innovation partner for U.S. businesses. By any measure, Taiwan is a terrific example of the successful U.S. foreign policy that supports flourishing free market democracies. Taiwan is worthy of significant U.S. support.

While USTBC also believes that Taiwan should be a key target for exploring bilateral trade initiatives - including negotiating and signing a Bilateral Trade Agreement (BTA) – Taiwan's inclusion in the IPEF can serve as a representation of the sustained U.S. commitment not only to Taiwan but to all our existing partners in the region.

Taiwan has already expressed their interest in potentially joining this new initiative as a full member. Including Taiwan in the IPEF would underscore U.S. leadership on economic matters in the Indo-Pacific, and would bind Taiwan even closer to U.S. friends and allies in the region. In addition, Taiwan's leadership on cutting-edge technology development would well serve the objectives of this initiative, which includes issues surrounding the digital economy.

Taiwan can serve as a partner for the U.S. on matters ranging from transparency and good regulatory practices, to new ideas on environment and climate issues, to respecting labor rights. As a long-standing and trustworthy economic partner, Taiwan brings a number of strengths that could help the U.S. achieve the goals it has set for the IPEF.

Conversely, excluding Taiwan from this important initiative undermines the bilateral economic relationship that would deprive the framework of a major and positive force for economic development. Missing this opportunity to engage with Taiwan would weaken the U.S.-Taiwan relationship. It could potentially impact the island's relationship with U.S. allies and other partners in the Indo-Pacific, such as Japan, which could even have national security implications for the United States. In addition, excluding Taiwan from the IPEF only makes sense if it takes place in consideration of how China would react to its inclusion. Instead, the U.S. should pursue a policy toward Taiwan that prioritizes American national interests over China's sovereignty claims.

USTBC remain committed to maximizing the U.S. business and commercial relationship with Taiwan. While we understand that there are some outstanding trade issues, we do not support U.S. preconditions on the path to broader ties.

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Taiwan is attempting to better integrate itself into the region's ongoing trade liberalization, but it is likely that any such effort will be unsuccessful in the absence of U.S. leadership. Many Indo-Pacific countries will not engage with Taiwan due to Chinese political objections unless the U.S. offers leadership and an established framework.

The IPEF could serve as such a framework, and including Taiwan in this initiative offers the U.S. an excellent opportunity to lead on Indo-Pacific trade and economic development.

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Appendix

Table 1: Taiwan's Trade Ranking with the United States, 2007-2022

Year	Rank	Portion of Overall U.S. Trade
2007	9	2.10%
2008	12	1.80%
2009	10	1.80%
2010	9	1.90%
2011	10	1.80%
2012	11	1.70%
2013	12	1.70%
2014	10	1.70%
2015	9	1.80%
2016	10	1.80%
2017	11	1.80%
2018	11	1.8%
2019	10	2.1%
2020	9	2.4%
2021	8	2.5%
2022 YTD	8	2.6%

Source: U.S. Census Bureau, *Top Trading Partners*

Figure 1: U.S.-Taiwan Trade in Goods, 1991-2021

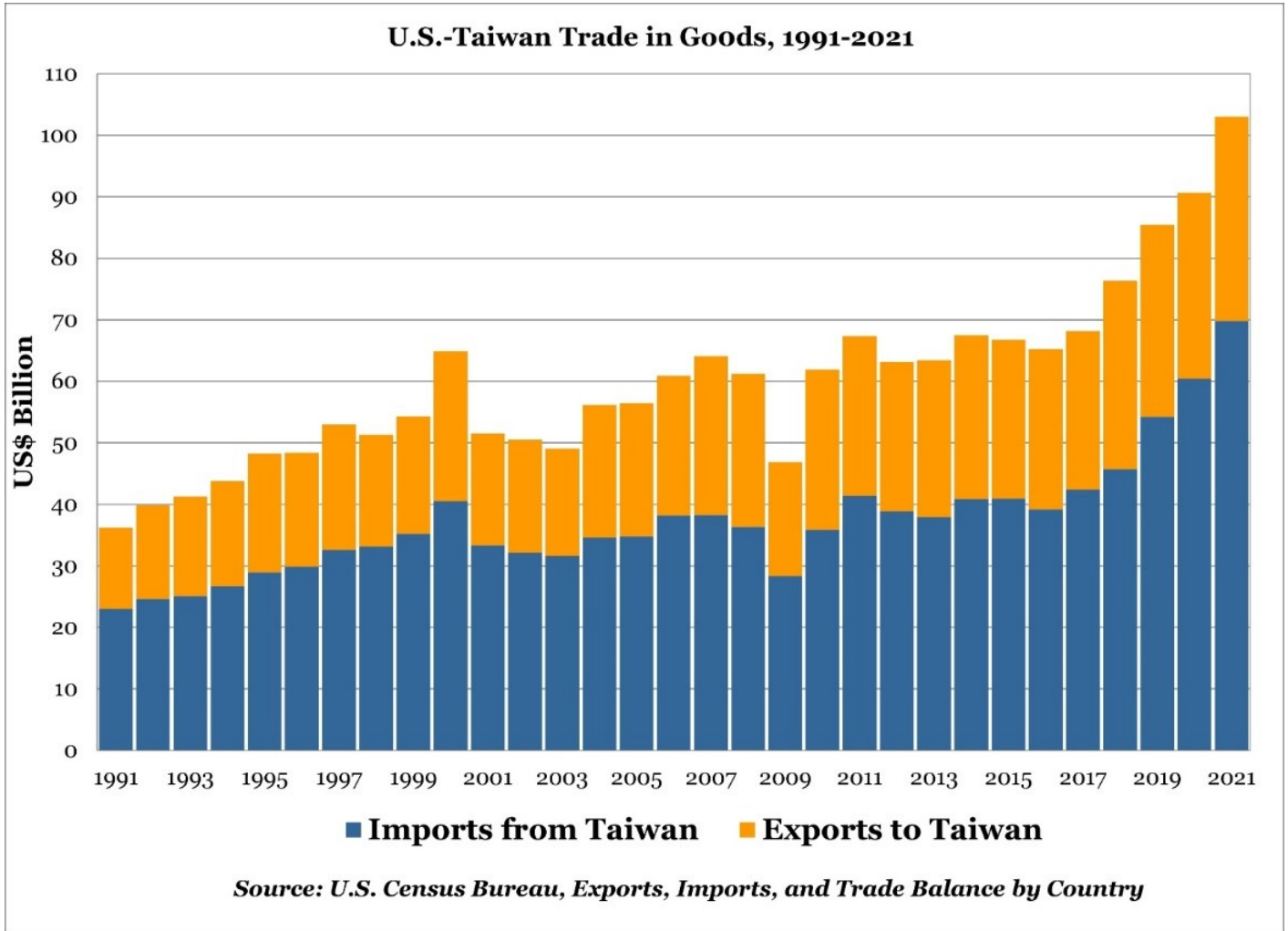
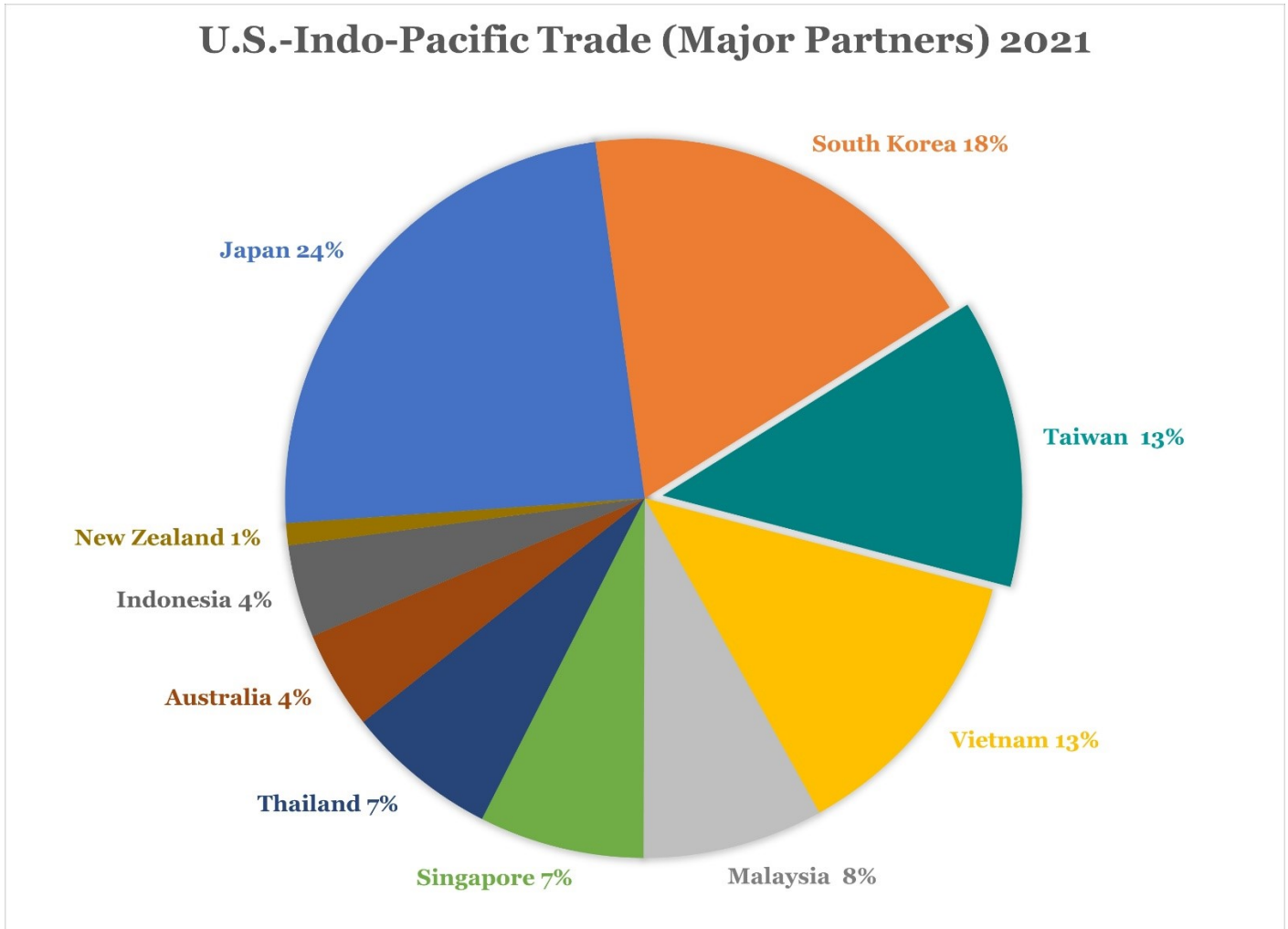


Figure 2: U.S. Trade with Major Indo-Pacific Partners - 2021



Source: U.S. Census Bureau