



**Comments Regarding U.S.-Taiwan Initiative  
on 21st-Century Trade**

**Docket: USTR-2022-0005**

**July 8, 2022**

**Submitted by the US-Taiwan Business Council**

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### ***Introduction***

On June 1, 2022, the United States and Taiwan launched the *U.S.-Taiwan Initiative on 21st-Century Trade*, intended to develop tangible ways to deepen the bilateral trade relationship. It is our understanding that this will not be a free trade agreement, and the initiative will not address tariff barriers. The two sides, represented by the American Institute in Taiwan (AIT) on the U.S. side and the Taipei Economic & Cultural Representative Office (TECRO) on the Taiwan side, are developing a roadmap for negotiations on agreements in several specified trade areas:

- Trade facilitation
- Regulatory practices
- Agriculture
- Anti-corruption
- Supporting SMEs in trade
- Harnessing the benefits of digital trade
- Promoting worker-centric trade
- Supporting the environment and climate action
- Standards
- State-owned enterprises
- Non-market policies and practices

The Office of the United States Trade Representative (USTR) will lead the U.S. side of the discussion. On June 7, 2022, USTR announced in the Federal Register (#2022-12248) that it is seeking public comments on relevant matters, including U.S. interests and priorities, in order to develop their negotiating objectives and positions.

The US-Taiwan Business Council, formed in 1976, is a non-profit, membership-based organization dedicated to developing the trade and business relationship between the United States and Taiwan. Members consist primarily of public and private U.S. companies with business interests in Taiwan, and range in size from small consulting firms to large multinational corporations. The organization aspires to be an effective representative for those members in dealing with business, trade, and investment matters between the United States and Taiwan.

Since its inception, the Council has worked with our members and with the U.S. and Taiwan governments to support the bilateral trade and commercial relationship. We have solicited feedback from our member companies on the priorities that they would like to see addressed as part of this initiative, and that feedback is summarized in the below narrative.

The Council appreciates this opportunity to submit our comments to USTR as part of the preparatory stage for negotiations under the *U.S.-Taiwan Initiative on 21st-Century Trade*.

### ***The U.S.-Taiwan Bilateral Trade Relationship***

U.S. trade policy toward Taiwan has been fraught with tension over several decades, with issues such as IPR protection, struggles regarding beef imports, and complications surrounding pork trade and rules of origin regulations having a dampening effect. There also appears to have been a bureaucratic reluctance in the U.S. to move forward on trade initiatives with Taiwan due to fears of disrupting cooperation with China. This tension has weakened U.S.-Taiwan trade ties. We are encouraged by this new initiative, which seems to indicate a positive way forward for this important trade relationship.

In 2021, Taiwan was our 8<sup>th</sup> largest trading partner – ahead of India and just behind the UK. Through the first four months of 2022, Taiwan has maintained that ranking. 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 as shown in Figures 1 and 2 below. Meanwhile, the U.S. is Taiwan’s second largest trading partner behind China.

The United States and Taiwan are complimentary economies with much to be gained by working together to fully leverage each other’s competitive advantages. Taiwan is a top tier trading partner for the U.S. and a like-minded democracy, but Taiwan is also an important U.S. partner due to their crucial role in the global technology supply chain.

Taiwan serves as a major hub for cutting-edge tech production, and is 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. Other important partners for U.S. tech firms include Taiwan firms such as Quanta, Compal, Inventec, Wistron, Pegatron, and many others. In 2021, 90% of servers were produced by Taiwan original design manufacturers (ODMs), and Taiwan’s notebook computer ODMs also account for more than 90% of global production.

In addition, contract manufacturers of semiconductors and associated companies based in Taiwan serve as key components 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, Qualcomm, and Nvidia, and they also serve in the same role to many U.S. allies globally. The success of TSMC and of their domestic competitors has helped boost Taiwan’s global market share in the increasingly competitive foundry segment.

Market share for foundry companies from Taiwan – which includes TSMC, United Microelectronics Corporation (UMC), Powerchip Technology Corporation, and Vanguard International Semiconductor Corporation – is estimated at just under 64% in 2021, which is still below its historical highs as shown in Figure 3. As of December 2020, Taiwan also held a substantial share of overall global integrated circuit (IC) industry capacity. In particular, at the less than 10 nm process node the island held by far the largest share of manufacturing capacity for any country in the world, with South Korea (through Samsung) trailing in this category. See Figure 4 for the percentage share of total monthly installed capacity, in 200 mm-equivalents, by geographic region and by process node.

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. Other Taiwan technology and semiconductor companies are also making substantial investments in the United States, such as the recent announcement by Global Wafers that it plans to build a 300-millimeter silicon wafer factory in Texas.

Taiwan joined the Asia Pacific Economic Cooperation (APEC) in 1991, signed a Trade and Investment Framework Agreement (TIFA) with the U.S. in 1994, and acceded to the World Trade Organization (WTO) in 2002. After co-founding the Global Cooperation and Training Framework (GCTF) initiative in 2015, Taiwan has cooperated closely

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with the U.S., Japan, Australia, and others in the region on economic, business, and cultural issues. Since 2020, Taiwan has engaged with the U.S. on the Economic Prosperity Partnership Dialogue (EPPD); the bilateral Science and Technology Agreement (STA) was signed in 2021; and since 2021 the U.S. Department of Commerce has engaged with Taiwan on the Technology Trade and Investment Collaboration (TTIC).

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 and trade agreements. In September 2021, Taiwan applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and it has made unilateral regulatory changes in support of that application.

In short, Taiwan is a significant, strategic, and reliable partner on technology, trade, and economic issues, underscoring why aligning Taiwan closely with U.S. interests is so important. In addition, U.S. support of Taiwan could potentially expand opportunities for collaboration between the U.S., Taiwan, and other economies in the Indo-Pacific.

### ***Priorities for U.S. Businesses***

Our members are encouraged that the U.S. government appears willing to demonstrate their commitment to expanding and deepening the trade and commercial relationship with Taiwan. In examining the many facets of the relationship that this new initiative plans to cover, as enumerated above, companies zeroed in on a few key components that they see as priorities to be addressed during negotiations.

#### ***Digital Economy Agreement***

At the top of the priority list for several U.S. companies was a Digital Economy Agreement (DEA). Such an agreement would establish digital trade rules and guidelines for digital economy collaboration, and would be tailored towards benefiting all technology workers, consumers, and businesses. DEAs allow key partners to develop frameworks that support and foster interoperability while clarifying standards and systems. Such agreements can build a strong foundation for expanding investments and research and development collaborations, and would support all businesses engaging in digital trade and economic commerce by providing certainty – particularly for small and medium sized enterprises (SMEs).

The U.S. and Taiwan are already working towards building consumer trust in the digital economy and promoting access to information, enabling use of digital technology, supporting resilient and secure digital infrastructure, and addressing discriminatory or trade-distorting practices in the digital economy. USTBC applauds the efforts by both sides to convene workshops and meetings on e-commerce and digital economy components through the GCTF mechanism – we want to see more collaboration similar to those dialogues. Taiwan is about to formally establish a new Ministry of Digital Affairs – a Cabinet-level agency that will support the development of Taiwan’s digital infrastructure, oversee development of innovations based on wireless and broadband communications, and will oversee the digitization of government. Additionally, the new Ministry will promote and develop Taiwan excellence in sectors such as artificial intelligence, machine learning, data collection and storage, information technology services, software, media, and digital content. Taiwan is also in the process of drafting a new Digital Communication and Services Act, although it is yet unclear what impact the DCSA will have on filling regulatory gaps in existing laws and frameworks.

Given its extensive preparatory work, Taiwan is already primed to work with its international partners – including both the United States and the European Union – to develop agreements that would cover the significant and growing digital economy. A DEA between the U.S. and Taiwan would help support U.S. technology companies active in Taiwan by providing greater consistency in digital trade rules. A forward-leaning and comprehensive digital economy agreement would allow the two sides to continue promoting innovation and competition, and would help drive next-generation advances in e-commerce and related services both in the U.S and in Taiwan.

#### ***Regulatory Practices and Standards***

Second on the priority list for U.S. companies was bringing Taiwan’s laws, policies, standards, and regulations in line with U.S. and global standards. Businesses are hopeful that negotiations under the *U.S.-Taiwan Initiative on 21st-Century Trade* could provide a mechanism to both streamline standards-setting and to encourage the Taiwan government to align some specific regulations with international practices. Companies expressed their hope that the two sides could make standards-setting a more collaborative process by involving government agencies, non-government organizations, and business and industry leadership from both the U.S. and Taiwan.

One area of concern for our member companies is Taiwan’s efforts to add semiconductor supply chain security measures and develop chipset security standards. Taiwan is in the process of codifying its security protection and strategies in the semiconductor sector by developing chip security testing standards and chip attack detection tools. We also understand that Taiwan is planning to establish a national chip security testing laboratory. While details on the specifics of this effort are currently limited, the importance of the chip industry and the complexity and high sensitivity

of chip security issues means that U.S. businesses active in this space are paying close attention to what Taiwan is planning.

We hope that Taiwan's efforts to develop its internal chip sector security standards will be an open and fair process, where U.S. and other foreign companies are able to participate fully and provide direct inputs based on their extensive expertise. International standards organizations are also continuing to develop global chip security guidelines and standards, and it therefore becomes increasingly important to align Taiwan's domestic standards with those international practices.

Another area of concern for companies was the issue of cybersecurity, and the need to align U.S. and Taiwan standards and technical regulations for this important sector. Companies suggested in particular that conformity assessment procedures be aligned between the two sides. Conformity assessment provides the link between standards and the products themselves, and offers a means of ensuring that the required characteristics set by established standards are consistent from product to product, service to service, and system to system. Aligning conformity assessment procedures for cybersecurity would encourage information security in all sectors – not only in semiconductors and information and communications technology (ICT), but extending in particular to the defense, national security, and energy sectors.

### ***Semiconductor Supply Chain Agreement***

As part of the concerns about standards-setting, companies were also interested in exploring how the *U.S.-Taiwan Initiative on 21st-Century Trade* could potentially play a role in enhancing bilateral supply chain security, particularly in the semiconductor sector. Taiwan's technology and semiconductor industries play such crucial roles in the U.S.-Taiwan trade relationship, and Taiwan therefore must be part of all U.S. attempts to improve the security and resiliency of the broader technology and ICT supply chains.

A comprehensive U.S.-Taiwan agreement that codifies transport and logistics system procedures – such as credentialing, screening, validation, and inspection – could play an important role in the process. A multifaceted and coordinated approach that includes Taiwan would help reinforce U.S. efforts to secure and harden the semiconductor supply chain across the globe.

### ***Double Taxation Agreement***

Investment serves as a foundational pillar of the U.S.-Taiwan economic relationship, and improving the investment environment for businesses on both sides could help deepen and enhance U.S.-Taiwan economic and business ties. While Taiwan has signed such agreements with other partners, there is currently no comprehensive double taxation avoidance agreement between the U.S. and Taiwan, beyond a 1988 agreement that applies solely to "*Earning Derived from Operation of Ships Craft.*" To incentivize investment, and to provide an internationally competitive tax environment, the two sides should come to an agreement to resolve double taxation issues.

As part of the concerns surrounding avoidance of double taxation, companies also mentioned the need for improved policies for removing supply bottlenecks and improving efficiency. That includes speeding delivery schedules for semiconductor products by resolving drop-shipment issues.

Drop-shipments in this context would be when a U.S. company completes a client transaction abroad, but then have a contract manufacturer in Taiwan ship the goods directly to the foreign client. Current Taiwan government regulations deem this type of sale to be a local sale that is subject to local income taxes. This differs from how such shipments are treated in other countries such as the U.S. and South Korea, and raise concerns about the potential for double taxation of such drop-shipped products.

Many foreign companies in Taiwan will not agree to this type of arrangement, due to the additional taxation, and instead take less efficient, more costly, and logistically more challenging routes – for example by shipping from Taiwan to the U.S. or to a regional distribution center, before shipping from there to the foreign client. Our members suggest that a potential avoidance of double taxation agreement under this new initiative also address this specific and challenging use-case.

### ***Conclusions***

The US-Taiwan Business Council and our members are heartened by the U.S. government’s focus on this new trade initiative, and hope that it will be indeed lead to expanding and deepening the U.S.-Taiwan trade relationship. On June 27, 2022, Deputy United States Trade Representative Sarah Bianchi and Taiwan Minister Without-Portfolio John Deng held their inaugural meeting as part of this initiative, and it is encouraging to us that the work to further the bilateral trade relationship has already begun.

However, the Council also believes that Taiwan should additionally be a key target for exploring further bilateral trade deals – including negotiating and signing a comprehensive Bilateral Trade Agreement (BTA). The agenda for this initiative also overlaps with many areas covered by the Indo-Pacific Economic Framework (IPEF). We would like to see Taiwan on a path to be included in IPEF, where Taiwan’s inclusion could serve as a representation of the sustained U.S. commitment to Taiwan and to all our existing partners in the region.

The Council would be happy to discuss in further detail any of the issues raised above, and are happy to work with USTR to clarify any questions. Please contact us via telephone at (703) 465-2930, or via email to [Council@us-taiwan.org](mailto:Council@us-taiwan.org). Thank you once again for this opportunity to submit our comments.



*Appendix*

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

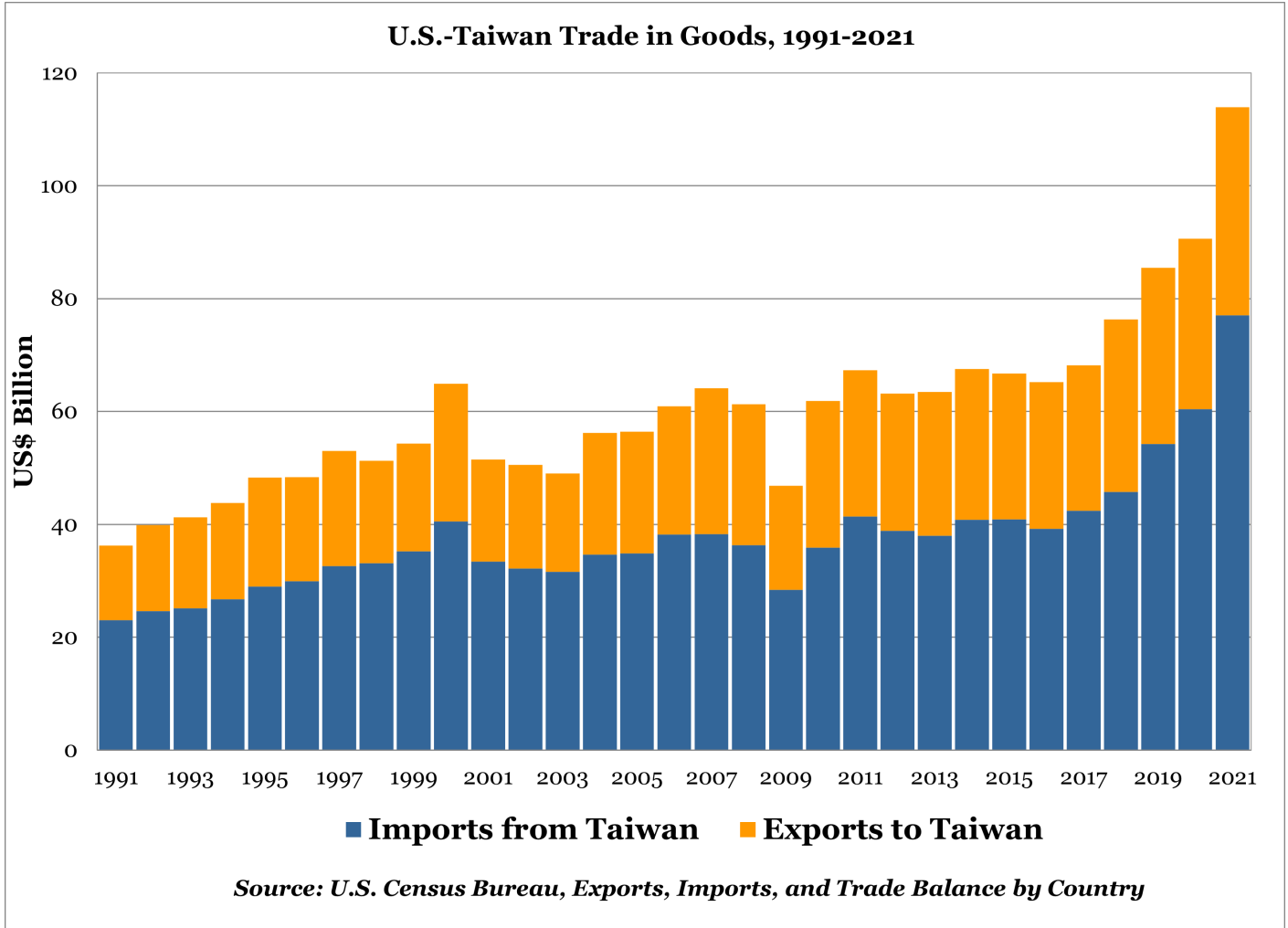
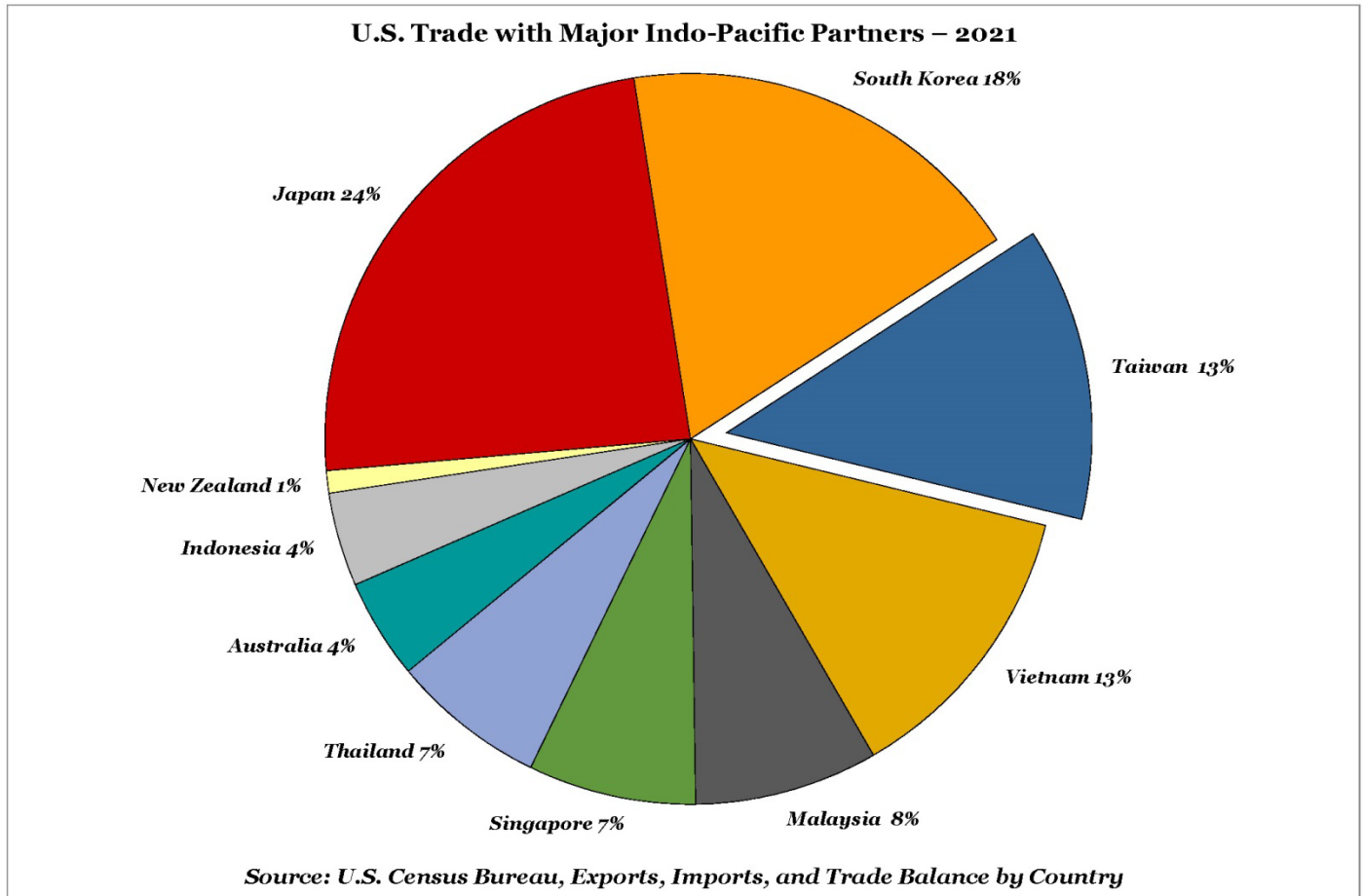
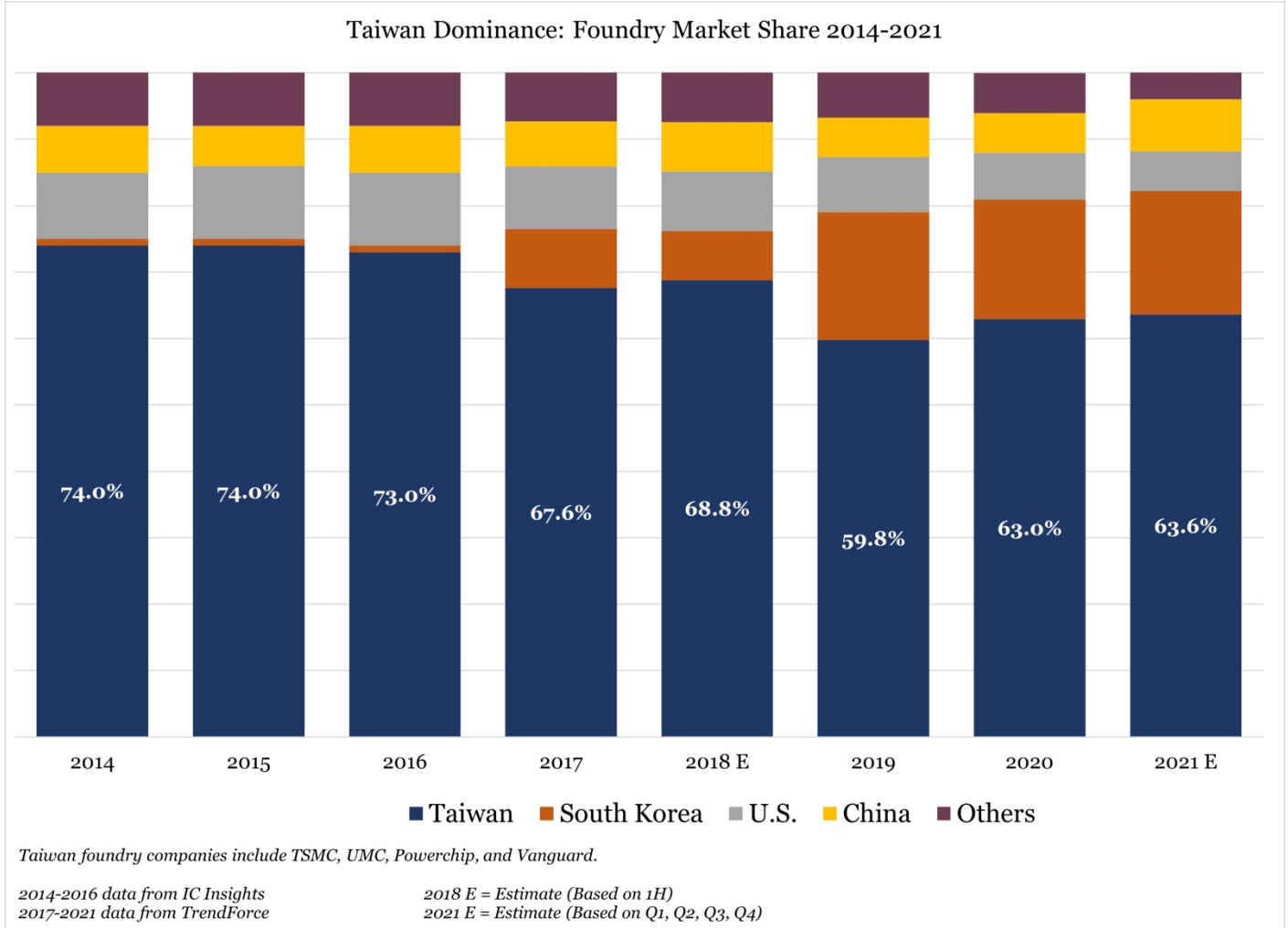


Figure 2: U.S. Trade with Major Indo-Pacific Partners, 2021



**Figure 3: Taiwan Foundry Market Share 2014-2021**



**Figure 4: Monthly Installed Semiconductor Capacity Share by Region & Process Node**

