U.S.-Taiwan Trade Relations

Taiwan is a top U.S. trade partner and key link in global technology supply chains, supplying both the U.S. and China markets, although this position is increasingly tenuous with U.S. government efforts to restrict China’s access to advanced technologies. Taiwan’s economy is highly dependent on global trade, with exports accounting for almost 70% of gross domestic product (GDP). Taiwan is seeking to overcome economic challenges (such as labor mismatches and energy shortages); generate new sources of growth in emerging technologies; and diversify away from its economic dependence on the People’s Republic of China (PRC or China). Central to these ambitions is the Taiwan government’s effort to start trade talks with the United States. Also see CRS In Focus IF10275, Taiwan: Political and Security Issues, by Susan V. Lawrence.

Taiwan’s Economy

Taiwan (population 24 million) is the world’s 22nd-largest economy, with a 2019 nominal GDP of $605 billion. The World Economic Forum ranks Taiwan as the world’s 12th-most competitive economy, and the World Bank ranks Taiwan as the 15th-best economy in ease of doing business. Taiwan’s GDP composition by sector is 2% agricultural, 36% industrial, and 62% services. Main industries include electronics, information communications technology, semiconductors, petrochemicals, textiles, steel, machinery, cement, food processing, autos, and pharmaceuticals. In 2019, Taiwan was the 20th largest trading economy with exports of goods and services totaling $382 billion. Taiwan’s real GDP growth averaged 3% from 2009 to 2019. The economy is projected to grow by 2.5% in 2020.

Figure 1. U.S.–Taiwan Goods Trade 2000-2019

($ in billions)

Prospects for Trade Agreement Talks

Taiwan’s government has expressed a strong interest in starting talks toward a comprehensive free trade agreement with the United States. Many Members of Congress have called on the U.S. Trade Representative (USTR) to prioritize such an effort, including 161 House Members who signed on to a joint letter in December 2019, and 50 Senators who signed on to a joint letter in October 2020. The American Chamber in Taipei has called on the Taiwan government to remove trade irritants to improve prospects for talks, noting in its 2019 White Paper that U.S.-Taiwan relations appear better than in decades. A trade deal could increase two-way trade and investment, strengthen ties, and help Taiwan diversify away from China by giving other countries cover to resist pressure from Beijing and pursue similar agreements with Taiwan. Taiwan concluded trade agreements with New Zealand and Singapore in 2013, and reportedly has sought trade and investment agreements with Australia, the European Union, Japan, and the United Kingdom. U.S. withdrawal from the Trans-Pacific Partnership (TPP) in 2017 hurt Taiwan’s ability to join the
TPP, an amended agreement, TPP-11, as well as the Regional Comprehensive Economic Partnership (RCEP) that were signed without the United States and Taiwan.

The U.S. government appears inclined to wait until Taiwan removes longstanding agriculture barriers before committing to talks. Other political, economic, and labor considerations could also defer U.S. action. In August 2020, Taiwan President Tsai announced her intention to ease U.S. pork and beef restrictions by executive order. In September 2020, Taiwan’s Council of Agriculture announced it would remove restrictions on ractopamine as a feed additive for pork, and Taiwan’s Food and Drug Administration issued a draft regulation to establish a Maximum Residue Limit (MRL) for ractopamine in pork. Both measures are to go into effect on January 1, 2021, but some Taiwan legislators have countered by proposing a national referendum on the issue. Elected representatives have proposed legislative amendments to require a mandatory 60-day notification before the government announces a new executive order and to mandate zero traces of ractopamine in pork products, complicating the government’s efforts. Given the unofficial status of diplomatic relations with Taiwan, if the U.S. government were to consider a comprehensive trade agreement, it would need to work with Congress to address potential complexities in how to handle the negotiations.

### U.S.-Taiwan Trade and Investment Framework Agreement (TIFA)

The United States and Taiwan concluded a TIFA in 1994. TIFA talks provide a high-level forum to discuss trade and investment market access issues. USTR has indicated in the past that TIFA talks could lead to trade agreement talks, but Taiwan’s agricultural barriers—particularly the government’s enactment of regulations in 2007 banning U.S. pork and beef that contain ractopamine (a feed additive that promotes leanness)—prompted USTR to suspend talks in 2007. TIFA talks resumed between 2013 and 2016, after Taiwan allowed some beef imports containing ractopamine. Some U.S. pork producers have stopped using ractopamine in exports to China, which bans ractopamine. Other U.S. concerns include:

- tariff-rate quotas on 16 agricultural products;
- motorcycle and soda ash tariffs;
- country-specific quota regime for rice;
- restrictions on biotechnology, genetically-modified agricultural goods, and medical devices; and
- rules on digital trade, energy, and tourism.

### Economic Challenges

Taiwan faces risks of declining competitiveness and growing economic dependence on China as it grapples with stagnant wages; an aging population; land, power, and water shortages; and a gap in certain technical talent. Unemployment is low at 3.8%, but the rate for those aged 20-24 is 12.4%. Taiwan’s government is seeking to phase out nuclear power, but has not identified alternatives. Taiwan’s “5+2” plan aims to boost emerging industries (e.g., advanced manufacturing and biotech) through $38 billion in subsidies; tax incentives and loans for technology innovation and production; and relaxed restrictions for the short-term hiring of foreign nationals to fill talent gaps.

### Global Economic Organizations

Since a 1994 U.S. Taiwan Policy Review, U.S. policy has been to support Taiwan’s membership in international organizations for which statehood is not a requirement, and to encourage “meaningful participation” for Taiwan in organizations for which statehood is a requirement. Taiwan is a member of the World Trade Organization, the Asian Development Bank, and the 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, however.

### Cross-Strait Issues

Taiwan depends on trade with China—although some trade supports production in China that is exported—and China is Taiwan’s largest destination for FDI. In 2019, 40% of Taiwan’s goods exports went to China and Hong Kong. In 2017, the Taiwan government estimated that 405,000 citizens—2.4% of Taiwan’s working population—were working in China. Taiwan provides China technology and related expertise with many former semiconductor engineers from Taiwan now working for PRC firms. In November 2018, the U.S. Department of Justice charged a Taiwan semiconductor firm, UMC, for an alleged scheme to steal trade secrets related to dynamic random access memory (DRAM) from Micron, a U.S. semiconductor firm, on behalf of Fujian Jinhua Integrated Circuit Co., Ltd., a PRC state company. President Tsai Ing-wen has opposed Beijing’s proposed “one country, two systems” framework for Taiwan and sought to deepen commercial ties in Southeast and South Asia. Beijing has sought to pressure Tsai economically, including by restricting tourism. (Between 2015 and 2019, Taiwan arrivals from China fell by 36% from 4.2 to 2.7 million.) Taiwan’s opposition Kuomintang (KMT) party contends that economic ties with China benefit Taiwan. Taiwan’s former KMT president, Ma Ying-jeou (in office 2008-16), accelerated liberalization of direct trade, transportation, and postal links and negotiated an Economic Cooperation Framework Agreement in 2010. Relations sourced in 2014 when a proposed cross-Strait services trade deal led to widespread protests in Taiwan, forcing the legislature to suspend a vote on the deal.

### Strengthening U.S.-Taiwan Cooperation

The Trump Administration elevated and deepened economic cooperation with Taiwan. It saw Taiwan as central to efforts to boost U.S. technology competitiveness and supply chain security and counter China’s technology policies. In November 2020, the United States and Taiwan held the inaugural meeting of a new Economic Prosperity Partnership dialogue. In May 2020, the Department of Commerce amended rules to restrict sales to PRC-based Huawei Technologies Co. and its affiliates of chips fabricated using U.S. design software tools, equipment, or technology, a decision that affected Taiwan Semiconductor Manufacturing Company (TSMC). Also in May, TSMC announced it had negotiated with the Department of Commerce to build a semiconductor plant in Arizona. Congress might consider terms to ensure that any trade talks would lower certain market barriers, build on TSMC’s initial commitment to boost Taiwan’s technology investment and manufacturing in the United States, and curtail specific technology support that Taiwan offers PRC industry that may be of concern.
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