



The United States-Taiwan Free Trade Agreement

Creating Opportunities for America and Taiwan

REFERENCE PAPER: Introduction to the U.S.-Taiwan FTA

Overview: A US-Taiwan FTA represents an important opportunity for the US and Taiwan.

- A United States-Taiwan Free Trade Agreement (FTA) will **enhance the strong relationship between our two democratic countries** by expanding trade and investment, promoting economic security, and creating new opportunities for workers and businesses in the US and Taiwan.
- The FTA holds the **promise of both economic and geostrategic gains** for the U.S. A stronger partnership with Taiwan will allow the U.S. to deepen its engagement in the Asia-Pacific region. As President Bush said in a speech in November 2005, Taiwan's economic reforms have already made it "one of the world's most important trading partners."
- As **a longstanding strategic ally and partner of the United States**, Taiwan has made the launch of an **FTA with the U.S. one of its top priorities**. However, the U.S. has launched or concluded bilateral FTA negotiations with every one of the top ten trading partners that is "ready" to negotiate—**except Taiwan**. Taiwan actually **purchases more** U.S. goods and services than some current U.S. FTA partners, including Australia, Bahrain and Chile.
- The recently concluded negotiations on a U.S.-Korea FTA will negatively impact Taiwan and U.S. companies operating in Taiwan by diverting trade and investment from Taiwan and contributing to Taiwan's isolation in the region. On the contrary, **a U.S.-Taiwan FTA will put Taiwan once again on an equal footing with Korea, while promoting robust economic linkages between the U.S. and Asia**—the fastest growing region in the world.
- The U.S. is already pursuing FTA relationships in North Asia with Korea and in Southeast Asia with Malaysia and Thailand. This leaves an important gap in the middle of Asia which an FTA with Taiwan would fill. The U.S.-Taiwan FTA will promote Taiwan's economic security and U.S. geostrategic interests in the region by encouraging its closer integration into the rest of the Asia Pacific.

A Strong Partner: An FTA will enhance the already strong economic relationship between the United States and Taiwan.

- Taiwan is the **9th** largest trading partner, **11th** largest export market and **5th** largest farm products market for the United States. In 2006 trade flows between Taiwan and the United States amounted to **\$61.2 billion**, a **7.6% increase** from 2005.
- The United States is the largest source of foreign direct investment in Taiwan. In 2006, cumulative US investment in Taiwan amounted to over **\$15 billion**.
- In terms of labor and environmental standards, Taiwan is a model for advanced economies. The government has made labor and environmental protection top priorities, with domestic standards adhering closely to international principles and guidelines.



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- Taiwan has also made major strides in **improving its protection and enforcement of intellectual property rights** in both bilateral and multilateral forums. Taiwan remains committed to working with the U.S. government and private sector to ensure continual progress in this important area.

Meaningful Gains: A US-Taiwan FTA will provide meaningful gains for US workers and businesses seeking to tap into expanding Asian markets.

- An Institute for International Economics (IIE) study predicts a **\$6.6 billion rise in US exports** to Taiwan under an FTA.
- **The structure of Taiwan's economy is highly complementary—not competitive—with that of the United States.** Industry-to-industry collaboration has been highly developed between US and Taiwanese IT and electronic industries, with Taiwan helping integrate U.S. companies into established **global supply chains**. The FTA will **open up even more opportunities for US companies** to expand their business in Taiwan and Asia in sectors such as **agriculture, telecommunications, services, tourism and education**.
- Further, the FTA will enable U.S. firms to leverage **Taiwan's role as a gateway to Asia**, with Taiwan serving as a secure platform and springboard for **innovation and market access**, providing U.S. companies a base of operations from which to export goods and services into the greater China region and Southeast Asia.

A U.S.-Taiwan FTA: Counteracting the damage to U.S. firms and Taiwanese economy caused by the KORUS FTA

- The recently concluded FTA between the United States and South Korea will have a strong adverse impact on Taiwan, especially in terms of industrial production and export trade.
 - **Diverting up to \$ 2 billion of trade from Taiwan:** As a result of overlapping exports between Taiwan and South Korea, it is estimated that the KORUS FTA will cut Taiwanese exports by **\$1 billion to \$2.1 billion**, equivalent to roughly 3% to 6% of Taiwan's total exports.
 - **Redirecting foreign investment and reducing technology transfer for Taiwan and U.S. companies:** The conclusion of the KORUS FTA will encourage U.S. companies to invest in South Korea and enter into technical partnerships with Korean firms. As a result, Taiwan is likely to experience reductions in foreign investment and technology transfer, especially in its hi-tech industry. Taiwan currently serves as a manufacturing and research hub for many large U.S. multinationals. The U.S. is the largest source of foreign direct investment in Taiwan, with a total investment stock of \$15 billion as of 2006.
 - **Increasing unemployment and weakening economic growth:** As one of the world's leading export-oriented economies, Taiwan is likely to face growing domestic unemployment and slower growth overall, as its workers and companies are dislocated by changing trade and investment patterns due to the KORUS FTA. A slowdown in Taiwan's domestic economy would also negatively affect U.S. companies operating in Taiwan.



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The U.S.-Taiwan FTA: Enables Two Democracies with Shared Values to Work More Effectively Together

- Negotiation of an FTA between the U.S. and Taiwan contributes to the perpetuation of **strong democracies in Asia**. Taiwan shares core democratic values with the United States and recognizes how central the role of expanding economic opportunities is to creating a viable democracy.
- **President Bush has noted Taiwan's progress in evolving into a "free and democratic Chinese society."** The FTA would improve the resiliency of Taiwan's economy while enhancing Taiwan's security. It also enables Taiwan to provide a higher standard of living for its citizenry as a result of the expanded economic opportunities the agreement will provide.
- Taiwan, **as a free and democratic Chinese society in the heart of East Asia** that also favors an open society, maintains free market policies and supports the rule of law, presents a strong contrast with those in the region seeking to destabilize international relations and threaten peaceful relations.
- Supporting an economically strong and confident Taiwan through negotiation of the FTA helps the U.S. to manage risk in the region and is fully consistent with broader U.S. policy objectives in East Asia.
- With a U.S.-Korea FTA in place, there will be an unbalanced scenario in the Asia-Pacific region and leaves the U.S. long-term partners – Taiwan uncared-for. This is an unfair situation for Taiwan and not consistent of the U.S. global policies in terms of diplomacy, politics and economy. **Only a U.S.-Taiwan FTA can possibly tip the scale and pave the path forward for a sustained prosperity and stability** between the U.S., Taiwan and other Asian countries.

FTA: The Next Logical Step for the U.S. and Taiwan

- It is clear that a U.S.-Taiwan FTA holds great promise for both U.S. and Taiwan firms and investors. The agreement will bring with it **new dynamism** that will keep U.S.-Taiwan economic relations vital and strong.
- As a longstanding **strategic ally and partner** of the United States, Taiwan has made the launch of an FTA with the U.S. one of its **top priorities**. However, the U.S. has launched or concluded bilateral FTA negotiations with every one of the top ten trading partners that is "ready" to negotiate—**except Taiwan. Taiwan already purchases more U.S. goods and services than some current U.S. FTA partners**, including Australia, Bahrain and Chile.
- The U.S. is pursuing FTA relationships in North Asia with Korea and in Southeast Asia with Malaysia and Thailand. This leaves an important **gap in the middle of Asia which an FTA with Taiwan would fill**. The U.S.-Taiwan FTA will promote Taiwan's security and U.S. geostrategic interests in the region by encouraging its closer integration into the rest of the Asia Pacific. Several observers have suggested that other countries would be willing to engage in FTA negotiations with Taiwan once the **U.S. had led the way in doing so**.
- We look forward to **working together** with you to make this historic agreement a **reality**.