

Recent Development and the Outlook of Taiwan-US Economic Relationship

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The Importance of Taiwan Gained Further Recognition amid Geo-political Tension

The rivalry between the US and China is essentially a competition between the economic system of the Western countries' free market system and China's state capitalism. China has not moved towards convergence with the Western countries in terms of its governance, despite its deep integration with the global market. In recent years, it has added more weight to state capitalism in its "socialist market economy" framework, with the Chinese Communist Party doubling down its efforts to achieve economic autonomy and exercising more direct interventions over capital and investors. This has led the United States to realize that it is increasingly challenging to see Chinese system moving closer to the Western countries.

Since the beginning of the trade war in 2018, followed by technological competitions between the two great powers, coupled with the impact of the COVID-19 pandemic, supply chain networks in China, previously as part of the US and EU businesses supply networks, have started to shift parts of productions out of China. With the United States advocating the idea of "China plus one"(production in China for China, production elsewhere for the US and free-market economies) for multilateral companies, Taiwanese businesses, as the main contract-manufacturing stakeholders for the US outsourcing customers, have taken on an increased role in expanding and connecting to new production relocations.

The Establishment of New Frameworks for Taiwan-US Interactions

Taiwan has a long history of economic partnership with the US government, but the lack of a systemic framework for policy dialogue has always been considered as a major shortcoming. This issue has been receiving new momentums to refine the situation.

The Trump administration first established a new economic framework with Taiwan as the "Economic Prosperity Partnership Dialogue" (EPPD) in 2020 to discuss issues related to 5G, telecommunications security, supply chains and etc. After President Biden takes office, the "Taiwan-US Technology Trade and Investment Collaboration ("TTIC") Framework " is created, focusing on five key areas: semiconductors, electric vehicles, 5G, cybersecurity, and renewable energy. Furthermore, on June 1, 2022, Taiwan and the US initiated negotiations for the "Taiwan-US Initiative on 21st Century Trade," marking the beginning of the first movement in a trade agreement between the two.

The "Taiwan-US Initiative" covers 12 topics, including customs administration and trade facilitation, services domestic regulation, good regulatory practices, small and medium-sized enterprises, anti-corruption, labor, environment, agriculture, digital trade, standards, state-owned enterprises and non-market policies and practices. It primarily involves commitments by Taiwan and the US on ruled-based issues and regulatory coherence and does not pertain to market access such as lowering tariffs. Taiwan and the US have completed negotiations on the first five topics which are formed and signed on June 1, 2023, marking the first agreement under the "Taiwan-US Initiative."

The Significance of the "Taiwan-US 21st Century Trade Initiative"

1. Emerging Rules for a De-risking Global Economic Order

Looking at the 12 topics of the Taiwan-US Initiative, it appears that they are issues unaddressed or under-addressed in the current WTO trade regimes, which are also challenging to reach consensus through multilateral negotiations. The United States is using bilateral framework to consolidate and enhance rules for some emerging issues considering the geopolitics tension.

Furthermore, despite "de-risking" strategy rather than de-coupling from China has been pursued by the US, EU and the Group of Seven (G7) nations, the primary purpose of the de-risking policy is to reduce the economic risks with respect of national security including the risk of trading with countries with different values. Therefore, in a few core critical sectors such as advanced semiconductor, quantum computing and artificial intelligence, the preferred strategy for the US to engage supply chain de-risking would be decoupling. This implies Taiwan and democratic countries are working to create a "China-free"

supply chain model. For other sensitive sectors, de-risking means the reduction of dependence with China that has a preference to weaponize economic interdependency. This implies some new trade and investment rules, together with rules for supply network facilitations and information exchange, are needed to underpin this long-term reform agenda. The Taiwan-US Initiative is one of the best examples of this effort. It also shows once again the importance of Taiwan in the global supply chain.

2. Facilitating Taiwan's CPTPP Application

Many of the issues covered in the Taiwan-US Initiative overlap with those of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). As the United States was the driving force behind the Trans-Pacific Partnership (TPP), the precursor to the CPTPP, the Taiwan-US Initiative serves as a means for the United States to demonstrate to CPTPP members that Taiwan not only meets US requirements but also indicates that Taiwan's regulatory scheme align with CPTPP provisions.

3. Expanding Taiwan's Global Presence

Compared to political and military arrangements, the Taiwan-US Initiative has relatively low political sensitivity but can highlight the symbolic importance of the United States' support of Taiwan. Through the signing of the first agreements under the "Taiwan-US Initiative," hopefully this can serve as a model and inspiration for US allies, enhancing Taiwan's economic and trade connections with more countries.

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