

台美自由貿易協定之研究

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關鍵字：台美自由貿易協定、世貿組織、台美貿易與投資架構協定、中國磁吸效應。

中文摘要

台灣雖然在經過近十年的努力之後順利地於 2002 年 1 月成為世貿組織（WTO）的第 144 個會員。但在區域主義日益盛行的今日，台灣卻仍礙於中國的阻撓而無緣加入一些重要的區域貿易組織或與一些重要貿易伙伴成立雙邊的自由貿易架構，而飽受可能被經濟邊緣化的威脅。儘管台灣已先後於 2003 年與巴拿馬、2005 年與瓜地馬拉、2006 年與尼加拉瓜等中南美洲友邦國家簽立自由貿易協定，但由於彼此間之貿易往來並不頻仍、貿易比重亦不大，故在經濟效益貢獻上實屬有限。而真正與台灣在經濟往來密切的美、日等國卻在中國之「一個中國」緊箍咒下，似難有切入空間。正當台灣刻正面臨產業外移、產業空洞化的嚴峻挑戰威脅下，簽立台美自由貿易協定不僅有其政治上極大的正面意義，同時更將對於台美雙方在經濟上有極大的裨益。

因此，本文乃從台灣為何需要與其他國家簽立自由貿易協定？台灣為何積極地要與美國簽立自由貿易協定？台美簽立自由貿易協定對於雙方都將獲益嗎？又美國為何推遲與台灣簽立自由貿易協定呢？以及台灣在此議題上應採取何種策

略作法呢？等問題進行探討。研究發現，兩岸問題（特別是三通問題）似是美國一直推遲與台灣進入有關談判的重要原因。因此，台灣應在相關問題上事先妥採因應，釋除未來美國在加碼投資台灣時可能之疑慮，俾爭取更多美國朝野之支持，為未來之台美自由貿易協定正式談判創造有利的氛維和更堅實的基礎。

The Exploration of the US-Taiwan Free Trade Agreement¹

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Key words: WTO, FTA, marginalization, Taiwan, the U.S.

Abstract

Though being accessed into the WTO in 2002, Taiwan is still the outsider of the FTA games. The booming FTAs hinder Taiwan to compete equally with other global rivals. Taiwan is so eager to sign a FTA with the US, which has been the most important trade and diplomatic partner of Taiwan. There are however some concerns, e.g. intellectual property right protection, sensitive agricultural market liberation, and objection of China, that make the US hesitate to negotiate with Taiwan on such issue, though the US is supposed to gain even more than Taiwan. This paper is to explore why the Taiwan-US FTA can not succeed and what approaches Taiwan should take at the moment in time.

¹ This paper was presented in the Conference on Free Trade Agreement in the Asia Pacific at Flinders University Bedford Park, South Australia on 10th July 2006.

I. Introduction

Free Trade Agreements (FTAs) represent a growing trend in global trade, especially as a means to complement World Trade Organization (WTO) multilateral agreements. Specifically, GATT Article XXIV allows WTO members to depart from the non-discrimination principle through the formation of a customs union (CU) and a free trade area (FTA). The principal benefit of these arrangements is a tariff advantage for trade among the constituent members as opposed to trade with third countries. It may induce the trade creation effect to the constituent members, but trade diversion to the others. Thus the FTAs among members of the WTO have proliferated at an astonishing pace since the WTO Agreement took effect in 1995.²

Taiwan has undertaken many efforts to liberalize its economy since joining the WTO in 2002. Not content with but a WTO-compliant, Taiwan efforts to sign FTAs with its partners. Taiwan's first FTA was signed with Panama in August 2003 and went into effect on January 1, 2004. The second FTA was signed with Guatemala in September 2005 and, following the three rounds of negotiations, Taiwan signed its third FTA with Nicaragua in June, 2006. Taiwan chose the countries which have diplomatic relations with Taiwan to avoid objections from China. Moreover, Taiwan now wishes to establish FTAs with Japan,

² R.E. Hudec and J.D. Southwick (1999), "Regionalism and WTO Rules: Problems in the Fine Art of Discriminating Fairly" in *Trade Rules in the Making: Challenges in Regional and Multilateral Negotiations* edited by Mendoza M.R. and P. Low and B. Kotschwar, Brookings Institution Press Washington, D.C., p.47.

Singapore, the US and others to counteract the magnetic suction effect which is created by China's vast market to Taiwanese businesses.

The US has always been Taiwan's closest trading partner through five decades of development, from when Taiwan's very survival depended on this distant aid donor, to now, when the relationship is conducted on the basis of market forces. The US was Taiwan's 1st trade partner before 2002 and became the 3rd after 2004, with bilateral trade worth close to US\$50 billion. Taiwan is the US's 10th largest export market, and 5th largest consumer of US agricultural products. It is relevant for the two to sign a FTA theoretically. Unfortunately, it is not the case. The Bush Administration however claimed that it is premature to discuss FTA with Taiwan.³ It may rouse our curiosity to find out the truth. Thus in this paper I try to explore firstly why Taiwan needs FTA in its global strategy. Then for what reasons is Taiwan so eager to sign a FTA with the US will be discussed at the third section. The fourth section will be on the previous studies to explore whether the US-Taiwan FTA will benefit to both constituents. Then why does the US hesitate to negotiate a FTA with Taiwan will be discussed next. As to the approaches Taiwan should take on this issue will be suggested at the sixth section of this paper. And the last is the conclusion of this paper.

II. Why Taiwan needs FTAs?

³ Evelyn Chiang, (2006), "U.S. Says 'Premature' for Discuss FTA with Taiwan", *Taiwan News* online, May 27, 2006.

Through accessing to the WTO, Taiwan at first took it for having got the ticket into the playground to play with other members nondiscriminatorily. However, the wishful thinking was frustrated by the challenge of the FTAs which become trade blocs diverting the trade from Taiwan to their uncompetitive constituents. Not to be discriminated in world-wide competition, thus, is the first reason for Taiwan to establish or join FTAs with the main trade partners.

Secondly, why Taiwan needs to join FTAs is for defensive reasons. There are currently 40 plus bilateral and plural FTAs in the world, and 30 plus under negotiation are within the Asia-Pacific region. Taiwan is especially now under the threat of being marginalized by the possible arrangements “ASEAN plus China”, “ASEAN plus Japan”, and “ASEAN plus Korea”. Taiwan now has close bilateral trade relations with China and the Southeast countries individually. Taiwan will suffer seriously from the trade diversion by failing to join the above regional blocs. It is, therefore, better for Taiwan to join these preferential agreements than stay out. Just like the Caribbean economies that are highly dependent on the US market felt a disadvantage while Mexico joined the NAFTA, and then drove to join it, Taiwan has also to seek mitigation likewise.

The third reason is to attract more foreign investment. Many multinational corporations view the FTAs as promoting their interests. This view reflects the role of FTAs as response to the functional demands multinational firms in the current environment. In particular it is noteworthy that these initiatives are concerned with services and foreign direct investment, as well as goods trade. As international competition intensifies,

small cost advantages may have large consequences. Particular national locations are necessarily well suited to the complete manufacture of complex products. With improvements in communications and transportation, firms are increasingly able to produce products by sourcing from multiple locations. The FDI is now playing an important role in developing the economics of the host countries. Taiwan is designating many devices to attract more FDI inflows and less FDI outflows. Especially under the shadow of “China fever”, Taiwan’s domestic resources have been rushing to meet China’s development needs rather than nurturing long-term economic growth potential at home. Taiwan’s officially-approved China-bound FDI in 2004 totaled US\$7 billion, or 2.3% of Taiwan’s GDP. This massive amount of China-bound investment is about the same amount as Taiwan’s aggregate R&D investment, of which 60% comes from private sources and 40% comes from the government. The FTAs is therefore regarded as one of the best means to attract the FDI, for many multinational corporations still consider Taiwan can serve a springboard for them to cut into the fast-growing economic blocs in the Asia-Pacific region.

The fourth is to mitigate the cost of the vague prospect of the WTO Doha Round. It is an opinion that the proliferation of FTAs may on one hand accelerate the pace of multilateral trade liberalization, yet on the other hand corrode the interests gained from multilateral negotiations. The cost to Taiwan of being excluded from FTAs will become greater while the multilateral negotiations can not be concluded successfully as soon as possible. Thus, it is important for Taiwan to have FTAs with

other trade partners to mitigate the effect of trade diversion, as the prospects for Doha are far from clear.

Other than the economic concerns, there is political concern for Taiwan to establish or join the FTAs. China's long-standing objections squeeze seriously Taiwan's global participation. Though had been successfully accessed into the WTO, Taiwan is conspicuously absent from FTA negotiations, for China has repeatedly warned other countries not to enter into trade negotiations with Taiwan. From the past experiences, successful preferential trade arrangements usually share some of the following attributes:

1. the needs for political commitment;
2. the role of an enabling environment;
3. distribution of costs and benefits;
4. deepening and leveling of the playing field.⁴

Political motivations have been frequently cited as motivating factors for FTAs, but they are neither necessary nor sufficient for success. Past experience suggests that rather than political motivation, a key condition for a success is political commitment. It makes mature institutions, a stable macroeconomic environment, and a relatively high degree of commonality of values and objectives.⁵ Furthermore, the political hindrance can be neglected during the FTA negotiations

⁴ Bouzas Roberto (1999), "Regional Trade Arrangements: Lessons from Past Experiences", in *Trade Rules in the Making: Challenges in Regional and Multilateral Negotiations* edited by Mendoza M.R. and P. Low and B. Kotschwar, Brooking Institution Press Washington, D.C., p.197-199.

⁵ Ibid.

while the benefits from the FTAs outweigh the costs. Taiwan has made the best preparation to sign the FTAs with the main trade partners after the access to the WTO.

Thus, the FTAs at present can be regarded as the best strategy for Taiwan to enhance its economic and diplomatic interests.

III. Why is Taiwan so eager to sign a FTA with the U.S.?

The US has a long-term interest in Taiwan's continued economic growth and prosperity. From 1951 to 1965, large amounts of economic and military aid came from the US as part of its cold war efforts to preserve this strategic ally in Asia. Much of the aid was used to improve Taiwan's infrastructure and the agricultural sector. Advisors stationed in Taiwan and Taiwanese sent abroad for education were all directed to rebuild the economy. Then Taiwan employed US advice to expand light industries. Export-processing zones free of bureaucratic red-tape were set up with special tax incentives to attract overseas investment. Soon, Taiwan had secured an international reputation as a world exporter. Taiwan's major partners include China, the US, Hong Kong, Japan, the EU and other economies of Southeast Asia. With the exception of Japan, Taiwan maintains a trade surplus with its major trading partners, and the largest surplus is with the US, though the sharp increase of

Taiwan exports to China beginning in 1990s had decreased Taiwan's dependence on the US market.⁶

Relative to the size of the island, US-Taiwan economic relations have taken on disproportionate importance because of their long-standing political and security. There is a close economic relationship between the US and Taiwan. The US is an important supplier of electrical machinery and appliances, transport equipment, scientific instruments, and chemical products to Taiwan. The US is a net exporter of agricultural products to Taiwan, and Taiwan, in turn, supplies many manufactured goods – particularly machinery – to the US. Taiwan was among the largest US trading partners, ranking the 10th in terms of US exports and the 8th (see Table 1) in terms of US imports (see Table 2).

Table 1 The US's Largest export markets

Unit: thousand US\$

<u>Partner</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
World Total	780,418,628	731,025,906	693,257,300	723,743,177	817,935,849	904,379,818
Canada	176,429,632	163,724,462	160,799,214	169,480,937	189,101,255	211,420,450
Mexico	111,720,878	101,509,075	97,530,613	97,457,420	110,775,285	120,048,914
Japan	65,254,366	57,639,072	51,439,625	52,063,765	54,400,163	55,409,625
China	16,253,029	19,234,827	22,052,679	28,418,493	34,721,008	41,836,534

⁶ *Taiwan Year Book 2005*,

<http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/index.html>

United Kingdom	41,579,356	40,797,923	33,253,090	33,895,379	35,959,848	38,628,657
Germany	29,243,960	30,113,948	26,628,438	28,847,948	31,380,913	34,149,178
South Korea	27,901,881	22,196,592	22,595,871	24,098,587	26,333,446	27,670,371
Netherlands	21,973,675	19,524,685	18,334,472	20,702,905	24,286,284	26,495,644
France	20,252,812	19,895,664	19,018,869	17,068,157	21,239,613	22,402,192
Taiwan	24,380,278	18,151,574	18,394,301	17,487,899	21,730,876	22,049,556

Sources: The US Department of Commerce.

Table 2 The US' s Largest Import Partners

Unit: thousand US\$

<u>Partner</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
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Taiwan	24,380,278	18,151,574	18,394,301	17,487,899	21,730,876	22,049,556

Sources: The US Department of Commerce.

Other than the bilateral trade, there is also close investment relationship between the US and Taiwan. Most US investment in Taiwan is concentrated in the manufacturing sectors, especially in electronics and chemicals, but also flows into wholesale trade and finance, insurance, and real estate. The net US capital outflows to Taiwan totaled US\$362 million in 2004, and by the end of 2004, total US investment in Taiwan totaled US\$13.3 billion. Taiwan's investment in the US also is concentrated in manufacturing (particularly chemicals and machinery), and in financial institutions, wholesale trade, and services. At the end of 2004, Taiwan's investment in the US totaled US\$8,124 million, and net capital outflows to the US in 2004 were US\$557 million.

In 2003, US Trade Representative Robert Zoellick spelled out 13 criteria for selecting potential FTA partners for the US. Table 3 lists each of the criteria –some of which go beyond making an economic case for such an agreement- and assigns subjective comments as to the extent to which Taiwan meets them. Taiwan performs well in terms of most of the criteria and better than other economies that are candidates for FTAs with US, particularly Middle Eastern nations that appear to be in pre-FTA consultations with the US primarily as reward for support in the war of terrorism.

Table 3 Taiwan and the US Trade Representative's 13 criteria for partners in FTA

Criteria	Extent to which Taiwan meets criterion
1 Guidance from the US Congress both from those who support a specific agreement as well as those who oppose it	US Congress very supportive
2 Support from the US business community, particularly the agriculture sector	Strong support from agriculture, but generally little support from other sectors because of the modest potential gains of a US-Taiwan FTA, and perhaps due to reluctance to antagonize China
3 The extent to which the influence of special interest groups might effect whether the FTA can pass in Congress	Interest groups generally support Taiwan, and there are no opposing interests
4 Seriousness of the partner in terms of high-level government support, negotiations that include all sectors, fulfillment of past commitments, and having negotiating teams that can work with one another	Taiwan would relish the chance to engage in FTA negotiation with the US but needs to do more to fulfill past commitments before the US trade office will consider talks
5 Commitment of the partner	WTO membership is

- to work within the WTO, especially important to particularly the dispute Taiwan process
- 6 The extent to which the FTA will encourage “competitive liberalization” in the region
Predominance of trade diversion in a potential agreement encourages countermeasures, the results of which are uncertain
 - 7 The extent to which FTA negotiations will help push through local reforms by the partner that can then be supported through the agreement
Some Taiwanese leaders suspect negotiations would be a ploy to distract the public from other needed reforms
 - 8 The extent to which the FTA will support the partner’s civil society in areas such as the environment, the labor market, the business environment, and the general degree of openness in the society
Taiwan’s strong performance in this area demonstrates its commitment to democracy
 - 9 How much the partner cooperates with the US on foreign affairs and security issues
Stalwart ally of the US
 - 10 Whether the FTA with the partner runs counter to preferential agreements that either the partner or other countries in the region have
An agreement would not circumvent any preferential bloc and counter Taiwan’s isolation

- with US competitors
- 11 Regional feasibility of the FTA, particularly in terms of promoting regional integration Would have a highly positive impact if it prompts China to accept Taiwanese participation in regional FTA
 - 12 Developed and developing countries welcome to participate in FTAs Taiwan is a high-income economy
 - 13 Whether there are other FTAs under negotiation in the region that might be of a high priority There are other FTA negotiation in the region but they would not necessarily preclude efforts to forge an agreement with Taiwan

Source: Lardy, N.R. and Rosen D.H., "Prospects for a US-Taiwan Free Trade Agreement", *Policy analyses in International Economics* 73, Institute for International Economics, December 2004, p.4-5.

While comparing to other US FTA partners and potential FTA partners, Taiwan ranks very high. In fact, among them only Canada and Mexico traded more with the US than Taiwan. The US and Taiwan traded more than 50 times as much as the US and Jordan or the US and Morocco. Traded between the US and Taiwan was more than 8 times greater than trade between the US and Chile. Traded between the US and Belize, the smallest on the current list, was less than one quarter of 1% of trade between Taiwan and the US. Of course, the simple volume of trade is only one of the issues to be considered in selecting potential FTA partners.

It is true that trade barriers between Taiwan and the US are modest, and that the direct benefits of further trade liberalization via a FTA must therefore also be modest. However, its strategic implications go beyond the economic dimension.

First, the US is a member of the NAFTA and is working with six Central American countries toward a free trade agreement called CAFTA (Central American Free Trade Agreement). A FTA between Taiwan and the US could serve as a gateway to extending Taiwan's economic outreach into Central America.

Second, a US-Taiwan FTA could serve as a platform for further development of a variety of mechanisms that channel Taiwan's venture capital and human capital into international R&D cooperation with the US and other advanced countries.

Third, a US-Taiwan FTA could provide a shield against Beijing's political clout and spur so-called "competitive liberalization" in East Asia by encouraging countries including Japan and ASEAN members to enter into FTAs with Taiwan. Taiwan could therefore mitigate the risk of being marginalized by China's plan to push an "ASEAN plus three" free trade area (the three being China, Japan and South Korea) -- a bloc that would deliberately exclude Taiwan and the US.

Last but not the least, a US-Taiwan FTA could help Taiwan prosper economically. This would enable Taiwan to better contribute to regional stability and prosperity.⁷ At least it will

⁷ H.C. Lin (2005), "On Trade, Look East instead of West", Taipei Times June 30, 2005, p.8.

help Taiwan to walk out the shadow of be marginalization. Moreover, without a US-Taiwan FTA, Taiwan has no ability to engage its regional partner, given China's opposition. Exclusion will marginalize Taiwan and hurt US companies that have spent years developing supply chains through Taiwan.

A US-Taiwan FTA thus a win-win strategy from both an economic and political perspective.

IV. Will U.S.-Taiwan FTA benefit both sides?

There were three quantitative assessments of a possible FTA between the US and Taiwan. Firstly, the US International Trade Commission (USITC) had assessed US-Taiwan FTA prospects in general and sectors of interest in particular. The USITC models considered the elimination of tariff barriers and quotas, but not other nontariff barriers.⁸ The second was a report by Chung-hua Institution for Economic Research. That report used a similar methodology but provided more detail on services.⁹ Finally, John Gilbert estimated the effects of a US-Taiwan FTA alongside 12 other US FTAs currently under negotiation or discussion.¹⁰ All three assessments used the Global Trade

⁸ US International Trade Commission (USITC) (2002), Brief filed by the Taiwanese Fastener Association, docket 322-TA-438, Washington.

⁹ Chung-Hua Institution for Economic Research (2002), "A report on the Estimated Economic effects of a Free Trade Agreement between Taiwan and the United States", Taipei.

¹⁰ John Gilbert, (2003), "CGE Simulation of US Bilateral Free Trade Agreements", background paper prepared for the conference Free Trade

Analysis Project (GTAP) 5 computable general equilibrium model to estimate trade regime changes.

Table 4 Welfare gains predicted by studies of a US-Taiwan FTA (millions of 1997 dollars)

Study	United States	Taiwan
USITC		
Allocative efficiency	0	0
Terms of trade	200	1,200
Total welfare	200	1,000
Gilbert		
Allocative efficiency	108	-23
Terms of trade	653	1,066
Total welfare	760	1,043
Chung-hua Institution		
Allocative efficiency	1,550	1,629
Terms of trade	-480	1,004
Total welfare	1,070	2,633

Sources: USITC (2002a), Gilbert (2003), Chung-hua Institution (2002).

The USITC estimated that total US welfare gains from a FTA with Taiwan would be \$200 million, which was trivial relative to total US GDP of \$7.95 trillion in the 1997 baseline. The Gilbert and Chung-hua estimated are substantially larger in absolute terms, but even the larger Chung-hua number was only 0.01% of US GDP. The estimated gains for Taiwan were greater in both absolute and relative terms. Estimated total welfare gains range from \$1 billion or 0.3% of 1997 GDP in the USITC and

Gilbert studies to as much as \$2.6 billion or 0.8% of GDP in the Chung-hua study.

Compared to the baseline of projected trade flows under current conditions, the USITC analysis found that the overall impact on both the US and Taiwan would be small in terms of total GDP growth, an expected outcome. From the US perspective, both exports to and imports from Taiwan would rise. After 4 years of operation, with 2001 used as a starting date, US exports to Taiwan were projected to increase by 16% while imports from Taiwan would rise approximately 18%.¹¹ The benefits from the signing of the US-Taiwan FTA to the respective constituent are summarized as follow:

1. the benefits to the US

- (1) Impact from eliminating trade barriers

The U.S. economy likely would experience very small effects from the elimination of trade barriers under a US-Taiwan FTA, but US trade with Taiwan would increase. Commission analysis suggested that both total US exports and imports would be 0.2% higher than levels expected in the absence of a trade agreement. In value terms, US exports to Taiwan likely would rise from about \$21.9 billion to \$25.3 billion, a 16% increase, while US imports from Taiwan would increase from \$39 billion to \$46 billion, an 18% increase.

In percentage terms, the US sectors likely to benefit the most would be motor vehicles, rice, fish, and other foods. These sectors likely would experience increases in exports to Taiwan

¹¹ Greg Mastel (2003), "A U.S.-Taiwan Free Trade Agreement", Project for the New American Century and the American Enterprise Institute, June 2, 2003, p.3-4.

of more than 100%. On the other hand, US imports from Taiwan for dairy, textiles, wearing apparel, leather, and certain crop commodities would rise by more than 100%. In dollar terms, these changes are significantly smaller because in many of the sectors, current trade is small or near zero, so the percent change is being applied to a small base. US sectors experiencing the largest dollar increase in exports to Taiwan would include machinery and equipment (\$868 million), motor vehicles and parts (\$629 million), and foods (\$520 million). US sectors with the largest dollar increase in imports would include: textiles, wearing apparel and leather products (\$3.1 billion), machinery and equipments (\$866 million), metals and related products (\$705 million), and electronic equipments (\$610 million).(see Table 5)

Table 5 US and Taiwanese sectors that would benefit most from bilateral export growth, 2005

(millions of 1997 dollars)

United States			Taiwan	
	Sector	Growth	Sector	Growth
1	Other machinery and equipment	868	Textiles, apparel and leather	3,104
2	Motor vehicles and parts	629	Other machinery and equipment	836
3	Other foods	520	Metals and metal products	666
4	Electrical equipment	307	Electrical equipment	599
5	Chemicals, rubber, and equipment	300	Other transportation equipment	504

6	Other transportation equipment	199	Chemicals, rubber and, plastic	414
7	Vegetables, fruits, and nuts	164	Other food	182

Source: USITC (2002), Brief filed by the Taiwanese Fastener Association, docket 322-TA-438, Washington.

Overall, the removal of quantifiable barriers would have a negligible impact on US production and gross domestic product (GDP), but would have a small impact on Taiwan production and GDP. Taiwan GDP could increase by 0.3% as a result of eliminating trade barriers under an FTA. The removal of certain nontariff measures would have additional effects on services. For example, US asset management firms and banks could expect to increase sales in Taiwan if certain nontariff barriers were removed under an FTA. The removal of these barriers might also affect US-Taiwan trade or investment in textiles and apparel, vehicles, and education.

(2) Effects on Agriculture

One of Taiwan's economic disadvantages is its limited natural resource base. This limitation is one reason that the US is able to export substantial amounts of raw material to the Taiwan economy, and it provides the US with a comparative advantage under free trade conditions in agriculture, since only about one-quarter of Taiwan's land area is cultivatable. In addition, over time Taiwan has deemphasized agricultural production and agriculture's share of GDP is shrinking. Since 1951, the share of

agriculture in Taiwan's GDP has fallen from 32.3% to less than 1.9% in 2001.

Under a FTA with Taiwan, overall U.S. output of vegetables, fruits, and nuts are estimated to be about 0.3% higher in 2005. In terms of U.S. exports to Taiwan, the value of rice, fish, meats, vegetables, fruits, and nuts and other foods would increase by more than 50%.

(3) Others

In addition to the simulation results, qualitative analysis of removing nontariff barriers to trade between the US and Taiwan indicates that US exports of rice to Taiwan likely would increase substantially if Taiwan's absolute import quota was removed.¹²

2. the benefits to Taiwan

A US-Taiwan FTA has economic and political advantages. The FTA will bring tremendous opportunities and commercial interests to American companies. Since China attempts to isolate Taiwan by forming ASEAN plus three, a FTA between Taiwan and the US will help Taiwan to break its international economic isolation.

For Taiwan, gains were projected in textiles and apparel (as much as 8% increase in total output), transportation equipment, chemicals, and some agricultural sectors, for the US maintains a relatively low average tariff rate of 2.8% but are higher tariffs on

¹² The USITC(2002), "U.S.-Taiwan FTA: Likely Economic Impact of a Free Trade Agreement Between the United States and Taiwan", October 2002.

selected products, including poultry products, citrus juice, textiles, apparel, and trucks. In relative terms, the volumes of textile, apparel and leather imports to the US from Taiwan could be 126% higher than in the absence of the FTA. Though the total of agricultural output decrease, the total social welfare will increase, for the increase of the consumer's surplus will outweigh the producer's.¹³

Other than the benefits in bilateral trade and welfare, a US-Taiwan FTA would have a number of benefits to Taiwan as follow:

- (1) It would have positive dynamic effects on Taiwan that econometric models cannot measure, in the areas of service, such as logistics, and in-bound FDI.
- (2) It would create an environment that will strengthen the partnership between Taiwan and American companies, which will in turn help the latter in managing their relationship with China.
- (3) It would help stimulate structural reform within Taiwan, accelerating deregulation and the evolution toward a knowledge-based economy.
- (4) It would provide Taiwan with better balance and diversity among its principal trading partners, and so avoid excessive dependence on China.
- (5) It would strengthen political relations between the US and Taiwan.¹⁴ Furthermore, the closer US-Taiwan

¹³ Shih-hsun Hsu, et al. (2003), "The Impact of Signing US-Taiwan FTA to the Agricultural and Fishery Sectors" *Agriculture and Economics* 30 (2003),27-62. (in Chinese)

¹⁴ R.C. Bush III, (2004), "The United States, Taiwan, and an FTA", Center for Northeast Asian Policy Studies, The Brookings Institution.

economic ties are seen to be in Beijing, the less likely Beijing will assume that it can take military action against Taiwan without involving America.¹⁵

- (6) It might help overcome the reluctance of other Asian nations to enter into bilateral trade negotiations with Taiwan because pressure from Beijing.
- (7) It might foster Taiwan's inclusion in intra-Asian trade liberalization.

V. Why does the U.S. hesitate to negotiate a FTA with Taiwan?

The principal obstacle to move forward in signing US-Taiwan FTA came from the US government. Its stated concern was the lack of progress on several bilateral trade issues: Intellectual property right (IPR) enforcement, government procurement, agriculture (rice), telecommunications services, and pharmaceuticals. Washington wanted progress on these trade issues if there is to be a bilateral meeting under the US-Taiwan Trade and Investment Framework Agreement (TIFA) which was a necessary prelude to any discussion of a US-Taiwan FTA.¹⁶

The US had complained bitterly about Taiwan's spotty record in protecting IPR that Taiwan's laws designed to protect IPR were not compliant with international norms and that enforcement remained weak.

¹⁵ J.J. Tkacik, (2002), "Why the Time is Right for a Free Trade Agreement with Taiwan", Backgrounder #1557, the Asian Studies Center at the Heritage Foundation, June 3, 2002.

¹⁶ Ibid.

The US also complained that Taiwan has yet to sign a government procurement agreement and the US is almost excluded from government procurement projects such as infrastructure construction projects.

The US pays special attention to Taiwan's rice market, which is a highly politically sensitive one. Taiwan's government estimated that overall domestic farm production will drop US\$ 1.5 billion, and it announced a US\$ 330 million support budget just for rice farmers in 2001, simply to cope with the pressure of WTO accession. Under a FTA, virtually all of that market would face competition with American rice. For mitigation, Taiwan may seek to exempt rice from FTA negotiation. Then the value of the US-Taiwan FTA would dim considerably and would fail the US farmers' expectation to gain US\$500 million in new income from exports to Taiwan.

Other than exploring the concerns about a US-Taiwan FTA, it is worthwhile to learn certain logic in the Bush Administration's position on the signing FTA. First of all, the USTR has limited resources to negotiate FTAs. It naturally wishes to dedicate those resources to those countries with which success is likely. Second, USTR wants to do FTAs that have a practical impact – opening markets. In this regard, a country's performance on past agreements becomes a predictor of how well it will abide by future ones. And third, USTR cannot move forward on a FTA with any country unless it has political support from the relevant American business sectors and their friends in the Congress. For USTR, an agreement that might have significant political or implementation difficulties is not

worth the time it takes to negotiate. Deputy US Trade Representative Karan K. Bhatia pointed out during a speech made to the members of the American Chamber of Commerce in Taipei that it will be extremely difficult for the US to take on any additional FTA partners during the next year, for the US has ongoing FTA negotiations underway, including proposed agreements with South Korea, Malaysia and Thailand etc..¹⁷

However, it is widely recognized that it is China's objection that has prevented the Bush Administration from moving ahead with negotiations toward a pact with Taiwan ever since. China claims Taiwan as a renegade province and objects to any measure which would acknowledge the reality that Taiwan is a de facto separate country. China's paranoia that Taiwan's pursuit of FTAs is part of a hidden agenda for independence means that it is extending its bullying tactics from the political and diplomatic arenas into the economic one. This has forced those nations interested in liberalizing trade with Taiwan to adopt a wait-and-see approach for fear of Chinese retaliation. In the recent SARS health crisis, China even sought to limit the ability of the World Health Organization to come to the aid of Taiwan. Beijing would certainly protest an effort by the US to strike an FTA with Taiwan. But unfortunately the US being tired from running around on anti-terrorism and forcing North Korea to abandon nuclear weapon proliferation efforts through six-party talks needs China's cooperation. The US has to show its goodwill to China by postponement the FTA negotiation with

¹⁷ Evelyn Chiang, (2006), "US says 'Premature' to discuss FTA with Taiwan", *Taiwan News*, May 27, 2006.

Taiwan. The political concerns have prevented the US to enter a FTA with Taiwan.

VI. What are the suggested Approaches to Taiwan?

Taiwan makes no secret of its desire to negotiate a US-Taiwan FTA. The US is also the first priority country for Taiwan to sign a FTA according to the investigation of the Chinese National Federation of Industries, the most important industrial organization in Taiwan, in 2004.¹⁸ At this moment Taiwan has to make the best effort to remove the stumbling block and level the path for future negotiation. For example, to cope with the US concern on closing the remaining loopholes in IPR protection, Taiwan is willing to do whatever is necessary to allay US concerns, particularly IPR. Taiwan not only launched a “Three Year IPR Action Plan 2003-2005”, but also committed to work for further changes in its IPR laws while maintaining aggressive law enforcement. Through IPR, Taiwan can further make sure the development of the knowledge-based economy. And it will also, to a certain extent, remove a major irritant with US and facilitate discussion of an FTA.

To seek support continually from the US Congress and major enterprises is also very important.¹⁹ Over the past several years many members of the US Congress have expressed their support

¹⁸ Chinese National Federation of Industries (2004), “The 2004 Investigation Report on the Enterprises’ opinion toward the Signing of FTAs/RTAs ”, August 2004.

¹⁹ Kuo

for a US-Taiwan FTA.²⁰ And there were more than 120 US companies and business organizations stepped forward in support. The American Chamber of Commerce in Taiwan also urged the Taiwanese authorities to continue negotiating with the US on the proposed FTA, but called for direct transportation links across the Strait and investment flows, given closer economic ties between Taiwan and China. They suggested that Taiwan with those links will be able to leverage its core competencies as a world trader in order to rejuvenate the domestic economy.²¹ Thus, the progress on direct transportation links across the Strait is also an important factor to push the US to sign a FTA with Taiwan for their own interests.

Other than the efforts to the concerns over the establishment of direct cross-Taiwan Strait transportation links and the protection of IPR, Taiwan needs also to assess discreetly the impact on the issues of rice, environment protection, labor, and e-commerce and take corresponding measures. Especially, the last three (environment protection, labor, and e-commerce) will be crucially added into according to the previous lessons of the FTAs of US-Singapore, and US-Jordan.²²

²⁰ For example, a concurrent resolution introduced in March 2003 (H. Con. Res.98) has almost 70 cosponsors to date.

²¹ AFX News Limited (2006), "Taiwan AmCham Calls for Direct Taiwan-China Links, May 30,2006.
<http://www.forbes.com/feeds/afx/2006/05/30/afx2779830.html>

²² Wen-thuen Wang, (2002), "How Is the Priority of the US-Taiwan FTA? ", *National Policy Dynamic Analysis* Vol.21, August 15, 2002, p.12. (in Chinese)

However, it may be a way to push the US signing a FTA with Taiwan that Taiwan directly negotiates FTA with China. Because it will make the US suffer from the trade diversion while there is a Taiwan-China FTA. The US then under such pressure will be forced to go ahead of China by establishing a FTA with Taiwan.

VII. Conclusion

The exploit of FTAs to promote global trade and the interests of participating economies heralds the quickening of a second trade front beyond the WTO. The world's leading trading nations need to be proactive in this process to ensure continued economic relevance and competitiveness. Taiwan, under China's objection to participate in regional trade liberalization, finds itself marginalized in Asia. Taiwan is the only country in Asia without a supporting web of FTAs, which is a sign of the success of Beijing's marginalization campaign. To sign a FTA with the US is a double-win tactic at present, for through a FTA can not only help to maintain Taiwan's economic standing and critical place in the global technology supply chain but also strengthen US dominant status and interests in Asia. It is a pity for the US to think time is not yet ripe for US-Taiwan FTA under certain economic and political concerns. Taiwan under such circumstance has to make the best efforts to manifest that Taiwan has everything be ready to fulfill the obligation of a FTA with the US and cooperate with the US Administration to promote the interests of both countries. Thus, it is important for Taiwan to (1) launch some reformations to relieve the US's indicated concerns, (2) seek the support continually from the US

Congress and major enterprises, (3) establish the direct cross-Taiwan Strait transportation links as soon as possible, and (4) assess discreetly the impact and find the solutions of the possible added issues (environment protection, labor, and e-commerce) .

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