

Hearing on “The Future of U.S.-Taiwan Trade”
House Ways and Means Committee
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September 14, 2022

Thank you, Chairman Neal, Ranking Member Brady, and Members of the Committee. I appreciate the opportunity to testify on issues pertaining to the U.S.-Taiwan trade relationship. My testimony will make the case for a comprehensive U.S.-Taiwan bilateral trade agreement (BTA) based primarily on geopolitical factors. I will leave it to other witnesses to evaluate the economic benefits.

There are five reasons why the United States should sign a BTA with Taiwan: 1) support Taiwan’s democracy; 2) strengthen Taiwan’s confidence in the United States; 3) provide cover for other countries to sign trade agreements with Taiwan; 4) enhance U.S. leadership in the Indo-Pacific; and 5) reward Taiwan for being a good partner and preserving the cross-Strait status quo. I discuss each of these in turn below.

Support Taiwan’s Democracy

Taiwan is a robust and vibrant democracy that is a trusted partner of the United States as well as a responsible stakeholder on global challenges such as Covid-19. Support for Taiwan among the American public has never been higher. The 2022 Chicago Council Survey, fielded July 15-August 1, 2022, found that when asked to rate their feelings on a thermometer, with zero as the coldest and 100 as the warmest, Americans give Taiwan an average rating of 60, the highest rating ever recorded in Chicago Council Surveys dating to 1978.¹

The future of Taiwan is important to American values. The first half of the twenty first century will be defined by a systemic competition between the capitalist democracy championed by the United States and its allies and the authoritarian state-led economy advanced by the People’s Republic of China (PRC) and other countries. Taiwan is at the front line of this rivalry, as Beijing intensifies political, military, and economic coercion against it as part of a broader strategy to subvert the island’s democracy and compel reunification. If Taiwan’s democracy delivers good governance to its people and protects their freedoms while pursuing external policies consistent with U.S. interests that support

¹ “Americans Favor Aiding Taiwan Against China,” *Chicago Council on Global Affairs*, August 11, 2022. <https://www.csis.org/analysis/now-right-time-trade-agreement-taiwan>.

the rules-based international order, it will demonstrate to Beijing and the entire world the resilience of democracy and democratic values.²

As former President George W. Bush stated in his congratulatory note to former Taiwan President Ma Ying-jeou after his election in March 2008, “Taiwan is a beacon of democracy to Asia and the world.”³ As the only ethnic Chinese democracy that has ever existed, Taiwan’s successful democracy demonstrates that Chinese culture, respect for human rights, and authentic democracy can coexist.

Despite growing threats from the PRC, Taiwan has strengthened its democracy at a time when many other democracies around the world are backsliding. Taiwan ranked the No. 1 “full democracy” in Asia and the eighth-most-democratic country in the world in the Economist Intelligence Unit’s latest Democracy Index, climbing from the 11th position in 2020. The EIU index is based on five key metrics: electoral process and pluralism, functioning of government, political participation, political culture, and civil liberties.⁴

Taiwan also ranked sixth in the Heritage Foundation’s 2022 Index of Economic Freedom, which assesses the economies of 184 countries based on 12 indicators. After constant improvement in its score in recent years, Taiwan has attained the status of the “economically “free” category, a achievement shared with only six other countries: Singapore, Switzerland, Ireland, New Zealand, Luxembourg, and Estonia.⁵

As Speaker Nancy Pelosi wrote in her op-ed for the *Washington Post* explaining why she visited Taiwan, “This vibrant, robust democracy is under threat.”⁶ The PRC has developed a broad range of tools aimed at undermining Taiwan’s democracy and weakening the will of the people of Taiwan to resist integration with the PRC. Beijing’s actions include banning thousands of Taiwan’s products from importation into the PRC, inducing a brain drain of Taiwan’s top engineers to the PRC, launching cyberattacks, undertaking displays of military force, spreading Chinese Communist Party (CCP) propaganda and disinformation in Taiwan, and isolating Taiwan on the world stage.

Taiwan’s friends should aid its efforts to defend its people, its democracy, and its freedoms. A bilateral U.S.-Taiwan BTA would serve that goal. It would demonstrate American solidarity with Taiwan’s people and reward their success in cultivating strong democratic

² Bonnie S. Glaser, Richard C. Bush, and Michael J. Green, *Toward a Stronger U.S.-Taiwan Partnership: A CSIS Task Force Report on U.S. Policy Toward Taiwan*, CSIS, October 2020, <https://www.csis.org/analysis/toward-stronger-us-taiwan-relationship>.

³ “Statement by the President on Taiwan election,” The White House, March 22, 2008, <https://georgewbush-whitehouse.archives.gov/news/releases/2008/03/20080322-4.html>.

⁴ Erin Hale, “Taiwan Ranks Among Top 10 Democracies in Annual Index,” VOA, February 11, 2022, <https://www.voanews.com/a/taiwan-ranks-among-top-10-democracies-in-annual-index-/6438806.html>.

⁵ 2022 Index of Economic Freedom, The Heritage Foundation, <https://www.heritage.org/index/ranking>.

⁶ Nancy Pelosi, “Why I’m leading a congressional delegation to Taiwan,” August 2, 2022, *Washington Post*, <https://www.washingtonpost.com/opinions/2022/08/02/nancy-pelosi-taiwan-visit-op-ed/>.

institutions, robust civil society, transparent and accountable government, and economic freedoms.

Finally, Taiwan's democracy will be stronger if its economy performs well, not just for the island's first-class IT firms but for all of its citizens. A well-designed trade agreement whose provisions will induce reform of Taiwan's economic system and make it more competitive will not only make Taiwan more resilient vis-à-vis the PRC but also demonstrate to *all* Taiwan's citizens that democracy works well.

Strengthen Taiwan's Confidence in the United States

Russia's invasion of Ukraine has fueled concern worldwide about the possibility of a Chinese invasion of Taiwan. The PRC has spread propaganda narratives in Taiwan that the failure of the United States to send troops to defend Ukraine means that the U.S. will abandon Taiwan.⁷ China's military exercises that were conducted around Taiwan in response to Speaker Nancy Pelosi's visit were aimed in part at undermining the confidence of the people of Taiwan in U.S. resolve and the ability of Taiwan's military to defend them.

There is evidence that Beijing's strategy is yielding results. Polls in Taiwan in the aftermath of the Russian invasion of Ukraine showed a significant drop in the percentage of respondents who believe that the US would come to Taiwan's defense in the event of an invasion by the People's Liberation Army (PLA). One poll conducted in April 2022 by the Taiwanese Public Opinion Foundation, an independent, non-partisan public opinion and policy research organization in Taiwan, found that among adults aged 20 years and older, a majority of 54.8% did not believe that the US would send troops to defend Taiwan while only 36.3% said they believe that the US would likely send troops. The same poll conducted in October 2021 found that 65.0% believed that the US would likely send troops to defend Taiwan and 28.5% believed that the US would not likely send troops.⁸

Since the PRC's threat to Taiwan is both military and psychological, the United States should have a dual response. In addition to strengthening Taiwan's military security through arms sales, the U.S. should seek to strengthen Taiwan's psychological security by increasing the confidence of Taiwan's public in U.S. support for Taiwan's prosperity. The best way to do that is by modernizing the U.S.-Taiwan economic relationship, helping Taiwan diversify its trade ties, and encouraging other countries to sign trade agreements

⁷ Sha Hua, "Mockery of West, Warnings to Taiwan Fill Chinese Social Media After Ukraine Invasion," *Wall Street Journal*, February 25, 2022, <https://www.wsj.com/articles/mockery-of-west-warnings-to-taiwan-fill-chinese-social-media-after-ukraine-invasion-11645798598>.

⁸ Paul Huang, "What do the Taiwanese Think?" Inkstick Media, June 22, 2022, <https://inkstickmedia.com/what-do-the-taiwanese-think/>.

with Taiwan. Those goals can be achieved through the signing of a comprehensive U.S.-Taiwan trade agreement.

Provide Cover for Other Countries to Sign Trade Agreements with Taiwan

Due to Chinese pressure, Taiwan has been excluded from regional trade agreements such as the 15-nation Regional Comprehensive Economic Partnership (RCEP) and has faced difficulties negotiating bilateral trade agreements. It has only two free trade agreements (FTAs) with countries that do not maintain diplomatic relations with the island. Those agreements, with Singapore and New Zealand, were signed in 2013 when cross-Strait relations were less tense and Beijing gave its blessing.

As a result, Taiwan has largely been sidelined from the trends of increasing regional economic integration and connectivity. Not only has this been detrimental to Taiwan economically, it has also led to greater isolation of the island, which serves Beijing's interests in lowering the morale of Taiwan's people and reducing their confidence in their elected government.

Taiwan's trade agreement with China – the Economic Cooperation Framework Agreement signed in 2010 – has aided Beijing goal of increasing cross-Strait economic integration and further increased Taiwan's economic dependence on the PRC. As Taiwan faces greater economic coercion from China, it needs to reduce its reliance on a single market, diversify its export markets, and further diversify its suppliers to bolster its autonomy.

A U.S.-Taiwan trade deal could be the only avenue for Taiwan to join the process of competitive trade liberalization in Asia. Importantly, it could also provide political cover for other countries to negotiate their own bilateral agreements with Taipei. Taiwan has sought trade deals with the European Union, Australia, Japan, the United Kingdom, and India, but its efforts have been stymied by Beijing. Australia and Taiwan, which have highly complementary economies, were set to launch trade negotiations in 2016, but Canberra tabled them to avoid exacerbating growing tensions with China. Earlier this year, the Australian Parliament's Joint Standing Committee on Foreign Affairs, Defence, and Trade recommended that the government consider negotiating a free trade agreement with Taiwan as well as “encourage and facilitate the accession of Taiwan” to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).⁹ Australia has a stake

⁹ Joint Standing Committee on Foreign Affairs, Defence and Trade, *Expanding the membership of the Comprehensive and Progressive Trans-Pacific Partnership*, Parliament of Australia, February 10 2022 <https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/CPTPPMembership/Report.

in strengthening Taiwan's prosperity and security, but it is unlikely to move forward alone with bilateral trade negotiations.

Japan has become increasingly concerned about Taiwan's security and the erosion of the status quo in the Taiwan Strait. Tokyo is moving to deepen ties with Taipei, including on economic and trade issues. In September 2021, Tokyo welcomed Taiwan's application to join the CPTPP. Yasutoshi Nishimura, then Minister of Economic Revitalization and as of August 2022 Minister of Economy, Trade and Industry (METI), stated that Japan considers Taiwan "a very important partner with which we share fundamental values such as freedom, democracy, basic human rights and rule of law."¹⁰

A major obstacle to opening negotiations on a trade agreement has been Taiwan's ban on the importation of food products from Japan's Fukushima Prefecture and four other prefectures that has been in place since the 2011 Fukushima nuclear disaster. Tsai Ing-wen made the decision to lift the 11-year ban this year, removing a major hurdle to launching trade talks. Nevertheless, Tokyo is likely to proceed cautiously, and may prefer to wait for other countries to go first. The United States could consider coordinating with its allies and partners in the Indo-Pacific and Europe on announcing their intentions to negotiate trade agreements with Taiwan. By doing so, they can reduce the likelihood of retaliatory actions by Beijing.

Enhance U.S. Leadership in the Indo-Pacific

A bilateral trade agreement with Taiwan would boost confidence throughout the Indo-Pacific in American leadership and its ability to be a significant player in the region's economic affairs. U.S. allies and partners in the region welcome U.S. military and diplomatic presence but view it as insufficient; they seek a United States that is an active and reliable partner in the region's political economy. The U.S. withdrawal from the Trans-Pacific Partnership in 2017 and its disinterest in joining new multilateral trade agreements has disappointed our allies and partners who favor greater U.S. involvement in both traditional trade liberalization and new agreements on digital trade.

The recently launched Indo-Pacific Economic Framework (IPEF) holds promise. If implemented successfully, it too will be a sign of U.S. commitment to the region. The IPEF will likely take a long time to negotiate, however, whereas a comprehensive bilateral trade agreement with Taiwan could be negotiated relatively quickly.¹¹ Moreover, since it does not provide greater market access or tariff liberalization, it is limited as a tool for U.S.

¹⁰ "Japan welcomes Taiwan's CPTPP bid, citing island's values," *Nikkei Asia*, September 24, 2021. <https://asia.nikkei.com/Economy/Trade/Japan-welcomes-Taiwan-s-CPTPP-bid-citing-island-s-values>.

¹¹ Kurt Tong, "Now is the Right Time for a Trade Agreement with Taiwan," CSIS, May 27, 2020, <https://www.csis.org/analysis/now-right-time-trade-agreement-taiwan>.

regional trade integration. And despite Taipei's keen interest in and qualifications to join, Taiwan was not included in IPEF because some of America's regional partners were uncomfortable extending an invitation to it for fear of antagonizing Beijing.

Taiwan's fate is pivotal to peace and stability in the Indo-Pacific. A successful PRC invasion of Taiwan would shatter regional confidence in U.S. security guarantees and the credibility of the network of U.S. alliances. Tokyo, in particular, would view a threat to Taiwan's security as posing an existential threat to Japan's sea lanes and its territory. U.S. policies to strengthen deterrence in the Taiwan Strait are supported by Japan, and a U.S.-Taiwan FTA would be welcomed.

Reward Taiwan for Being a Good Partner and Preserving the Cross-Strait Status Quo

Since her inauguration in May 2016, President Tsai Ing-wen has been a steadfast partner and pursued policies that have strengthened U.S.-Taiwan relations, including some that have been unpopular in Taiwan. At the encouragement of the United States, she has steadily increased defense spending over the past four years. This resulted in real-term growth of 5 percent, 19 percent, 10 percent and 2.5 percent from 2019 to 2022. For the 2023 defense budget, Tsai's government has proposed a 13.9 percent year-on-year nominal increase, bringing military spending to a record TWD 586.3 billion (US\$19.4 billion). President Tsai has also pressed Taiwan's military to implement an asymmetric defense strategy and purchase weapons that are small, smart, mobile, survivable, numerous, fast, and difficult to detect and counter.

In August 2020, President Tsai invested significant political capital by taking steps to address U.S. concerns about Taiwan's policies on beef and pork, which have been a major obstacle to launching any talks on trade and economic cooperation. Despite persisting concerns among Taiwan's public about the safety of U.S.-produced pork containing the feed additive ractopamine, which accelerates weight gain and promotes leanness in pigs, Tsai announced that Taiwan would ease regulations to allow imports of U.S. pork with trace amounts of ractopamine. She also lifted restrictions on the importation of U.S. beef products from cattle aged 30 months and older, resolving a disagreement that began in 2003. Strong public opposition to lifting the ban was evident in a December 2021 referendum, in which 49 percent of voters favored the ban and 51 percent opposed. The referendum failed to reverse the measures because it was invalid under Taiwan's law that requires five million votes to pass or reject a proposal.

Undue emphasis by successive U.S. administrations on market access in Taiwan for American beef and pork is a major factor that has hampered the modernization of the U.S.-Taiwan economic relationship. Those were not trivial issues, and Taiwan did not

completely honor its commitments. But because a strong, reforming Taiwan economy is important for the island's democracy and to help defend Taiwan against growing PRC pressure, those matters should have been resolved long ago. The time to move forward on a BTA is now.

In the face of growing military, diplomatic, and economic pressure from the PRC, President Tsai has implemented consistent cross-Strait policies aimed at preserving the status quo in the Taiwan Strait and eschewed pursuing provocative actions that could ignite conflict. She has repeatedly stated that Taiwan will neither bow to pressure nor seek to provoke China, despite appeals from the base of the ruling Democratic Progressive Party (DPP), called "Deep Greens," to push for de jure independence for Taiwan.

Since assuming power, Tsai Ing-wen's government has expressed strong interest in a trade agreement with the United States. As a trade negotiator by training who led Taiwan's negotiations to join the World Trade Organization, she can be expected to negotiate in good faith and expeditiously deliver an agreement. Many Members of Congress have called on the United States Trade Representative to prioritize such an effort, including a letter to USTR on June 30, 2021 from 42 Senators.¹² Numerous Congressional bills have called for the US to negotiate a bilateral trade agreement with Taiwan, including the Taiwan Policy Act of 2022, which has strong bipartisan support.

Both the Trump and Biden administrations established new mechanisms to strengthen economic ties with Taiwan, including the U.S.-Taiwan Economic Prosperity Partnership Dialogue (November 2020), the Technology Trade and Investment Collaboration (TTIC) framework (December 2021), and the U.S.-Taiwan Initiative on 21st-Century Trade (June 2022). The Biden administration also restarted the Trade and Investment Framework Agreement (TIFA) talks in June 2021. While these efforts to increase economic cooperation with Taiwan are welcome, none of these mechanisms are intended to conclude a comprehensive BTA and their impact will therefore be limited.

¹² "Rubio, Warner Lead Bipartisan Letter to Ambassador Tai Highlighting Importance of Reconvening Trade Talks with Taiwan," press release, June 30, 2021, <https://www.rubio.senate.gov/public/index.cfm/2021/6/rubio-warner-lead-bipartisan-letter-to-ambassador-tai-highlighting-importance-of-reconvening-trade-talks-with-taiwan>.

Time is of the Essence

As the PRC steps up its efforts to undermine Taiwan's security, the United States should use all the tools in its toolbox to strengthen Taiwan. The U.S. is providing Taiwan with more weapons and other forms of military support and has also increased U.S. and allied diplomatic support for Taiwan. Yet, the trade and economic pillar of U.S. policy toward Taiwan remains weak. Enhancing Taiwan's security must include more effective measures to help Taiwan diversify its trade and join the regional economic integration process, which are essential for Taiwan's long-term prosperity. If Taiwan continues to be excluded from regional economic integration and is prevented from signing bilateral trade agreements, Taiwan will become more vulnerable to PRC pressure in the years ahead.

A U.S.-Taiwan BTA would have geopolitical and geoeconomic significance that goes beyond the economic case for such an agreement. Taiwan is a strong democratic partner. It contributes in numerous ways to strengthening regional and global security. Taiwan is an indispensable link in global high-tech supply chains, especially the semiconductor industry. A bilateral trade agreement with Taiwan would boost confidence throughout the Indo-Pacific in American leadership. It would reward Taiwan for its steady efforts to preserve the cross-Strait status quo and strengthen the confidence of Taiwan's people and its government in the United States.

Now is the time to move forward with negotiations aimed at reaching a U.S.-Taiwan BTA. A comprehensive bilateral trade accord would bring benefits to both sides.