



Sigur Center for Asian Studies

THE GEORGE WASHINGTON UNIVERSITY

U.S.-Taiwan Economic Relations: Domestic and International Drivers

President Donald Trump made headlines shortly after his electoral victory by accepting a congratulatory phone call from Taiwan's president, Tsai Ing-wen. It signaled what some saw as a renewal of American commitment to Taiwan in the face of Chinese criticism. But over a year later, Taiwan is still waiting for a specific policy towards the island nation from the Trump Administration. President Trump has often been unrestrained with his criticisms of trade arrangements between the U.S. and mainland China. Yet dialogue over Taiwan's place in the new Administration has been few and far-between, peculiar for a nation ranked as the tenth largest goods trading partner of the United States.

Recently, two panels of experts met at the Sigur Center for Asian Studies to address the issues and opportunities regarding the U.S. – Taiwan economic relationship. The first panel analyzed the political environments in the U.S. and Taiwan that affect economic ties. They discussed the challenges facing both countries internal political and economic environments, and certain motivations and drivers that affect the bilateral partnership. The subsequent panel discussed economic challenges and opportunities facing the relationship. These included the need for greater dialogue at a time of increased uncertainty, and ways in which American domestic industry could benefit from the expertise of Taiwanese multinationals.

Political Environments in the US and Taiwan for Economic Ties

Leading the first panel was Robert Sutter, Professor of Practice of International Affairs, GW. Sutter honed in on the apparent shift in

policy within the Trump Administration. For the previous two American Administrations under Obama and Bush, the One China Policy enjoyed relative consistency in their dealings with both Taiwan and mainland China. Although there have been exceptions to America's strict adherence to the policy, Sutter explained that both Administrations mostly acted in ways as to not upset the mainland.

This dynamic shifted when President Trump accepted Taiwanese President Tsai Ing-wen's congratulatory phone call in the wake of his electoral victory. It appeared Trump was willing to create better communication between Taiwan and the U.S. at the risk of rattling Beijing. And indeed hardliners within China criticized the phone call not soon after. Sutter asserted that Trump has repeatedly used tension like the one stirred up in the wake of the phone call as a tool, and that he is less concerned with angering Beijing. Yet since the call, communications and policy towards Taiwan have stalled, and Sutter questioned Trump's own stake

in America's partnership with Taiwan. He noted conversely how the Republican Party's platform is quite critical of Beijing and adamant in its support of Taiwan, and wonders if policy could eventually shift more in favor of Taiwan. Regardless of strategy emanating from the White House, Sutter explained that other offices in Washington have devised strategies involving Taiwan, primarily the Department of Defense in its broader Pacific security strategy. Sutter concluded that we should watch and see if the Trump Administration will in fact undergo a Taiwan policy review and how security concerns over Chinese expansionism could affect Taiwan.

Syaru Shirley Lin, Professor of Global Political Economy at the Chinese University of Hong Kong, took up Taiwan's domestic challenges and its economic and political outlook for the future. Many of Taiwan's current economic shortcomings come at the added risk of becoming more reliant on the mainland for trade and investment, she highlighted. Taiwan is currently facing a slew of domestic impediments that are putting great pressure on the current government. Slower growth has led to rising discontent and increased political polarization. Higher incomes have challenged firms' abilities to keep labor costs in check, with many seeking cheaper labor abroad. Lin said that this has led to an increased

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generational divide, with many youth left underemployed.

With fewer youth able to find higher paying jobs, Taiwan's population growth has suffered, and the island is faced with a rapidly aging population. These young workers are often unable to pay the exorbitant housing prices in major cities like Taipei, making it harder for them to settle down and start families. In order to address needed domestic reform to the economy. President Tsai has introduced several reform ideas like pension reform (popular among the youth), labor reform (increased days off per week to two), and a small increase in minimum wage. Ideas like pension reform have predictably been met with opposition from older generations nearing retirement. Minimum wage increases have been scoffed at as too small and ineffective. Lin interpreted these efforts as necessary, yet at the same time the political cost of implementing them is severe.

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Lin asserted that support for the Tsai Administration has been volatile. Its recent decline has impacted President Tsai's ability to press for further reform. President Tsai also faces the challenge of weaning Taiwan's economic reliance on mainland China. Currently, China accounts for one quarter of all Taiwanese trade, and many see China as an outlet for cheaper labor and products. Lin described Taiwan's Southbound Policy which hopes to counteract reliance on China in exchange for greater partnerships with

ASEAN countries. She stated that Taiwan should continue to work closely with the U.S., Japan, and the United Kingdom in order to maintain their economic freedom and assuage their economic concerns.

Joshua Meltzer, Senior Fellow of the Global Economy and Development Program at Brookings, went into further details of the U.S.-Taiwan relationship that is facing changing circumstances. He explained that historically, the relationship has thrived on stability which has paved the way for bilateral trade. But the Trump Administration's trailblazing approach to Taiwan, and President Trump's own volatile decision-making, has led to uncertainty in the relationship that has coincided with an uptick in Chinese assertiveness in the Asia-Pacific.

While there is a gathering fear of increased reliance, Meltzer noted that Taiwan in fact has a more entrenched national identity separate from China. This is particularly palpable among younger generations, as both Lin and Meltzer noted. Therefore, a strong U.S.-Taiwan partnership is vital in leveraging China's growing regional influence. Yet Meltzer asserted that the current U.S.-China relationship has also become unstable and unsustainable. President Trump's tough campaign talk of unfair trade deals with China has left some worrying that Taiwan could be used as a pawn as the U.S. seeks fairer agreements with the mainland. Meltzer concluded with offering options for the partnership to foster more confidence within Taiwan. He argued that Taiwan should leverage its high-tech manufacturing expertise for possible developments in trade. He also stated that the decreased importance of a Trans-Pacific Partnership (TPP) deal could give Taiwan more breathing room to seek out other opportunities. Meltzer surmised that American departure from TPP has meant fewer trade talks and outcomes between the U.S. and Taiwan, and hoped to see more zealous talks in the future.

Trade, Investment and Services: Opportunities and Challenges

President of the US-Taiwan Business Council, Rupert Hammond-Chambers, began the panel that focused on ways of strengthening economic partnerships between the U.S. and Taiwan. Hammond-Chambers began by analyzing the "managed mediocrity" of the current status quo in regards to the U.S.-Taiwan relationship. He argued that the current American posture is deeply frustrating for Taiwan and that the U.S. should be doing more to foster trade opportunities. There is a sense of an absence of ambition with respect to the relationship, evidenced in part by a lack diplomatic appointees and leadership within agencies like the U.S. Department of State.

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Now a year into the current Trump Administration, Hammond-Chambers expressed frustration over the lack of progress. He stated that the Trade and Investment Framework Agreement (TIFA), which serves as the primary economic dialogue between the U.S.

and Taiwan, is not up to date. In fact, regular cabinet-to-cabinet exchanges have become infrequent. Face to face dialogue is essential for making new gains and clearing uncertainties, he argued. This lack of communication with one of America's top trading partners comes at an unhelpful time for Taiwan. Hammond-Chambers argued that the United States should help Taiwan shore up its energy grid. As Taiwan looks to diversify its energy intake away from nuclear power, he explained how the U.S. could provide natural gas and renewable energy investment for the island. This opportunity could spark renewed trade fervor between the two sides, be win-wins for the Tsai and Trump Administrations, and help to secure Taiwan's energy grid in the face of Chinese hostility. Conversely, Hammond-Chambers explained how Taiwan should continue investing in key American sectors. Foxconn, one of Taiwan's paramount transnational businesses, has pledged large investments into a new high-tech Wisconsin plant that would produce LCD panels. Hammond Chambers would like to see more of this level of outbound investment from Taiwan, acting in concert with Taiwan's Southbound policy.

Shihoko Goto, Senior Northeast Asia Associate at the Woodrow Wilson Center, reiterated the need for Taiwan to continue making outbound investment deals. She highlighted the imperative of maintaining competitiveness in major sectors on the island. Ensuring the competitiveness of the service sector is key to Taiwan's future growth, she asserted. In order to stay competitive, Taiwan under the Tsai Administration must continue developing its human capital and encourage innovation and entrepreneurship. These measures will help retain young, talented Taiwanese who are currently heading to the mainland to grow businesses.

Goto added that under the Trump Administration, Asian nations are not expecting favorable bilateral trade deals. Therefore there is more need for countries like Taiwan to pursue their own agreements. Taiwan's comparative advantage in high-tech manufacturing is one area where it could leverage its advantages to achieve success. In order for Taiwan to remain competitive, Goto argued that it should continue to advertise its respect for the rule of law and that inbound investors to Taiwan will be protected. The Tsai Administration should also continue to spur domestic demand through innovation and increased productivity.

Concluding the afternoon panel was Vincent Wang, Dean of the School of Humanities and Sciences and Professor of Politics at Ithaca College. He began by reinforcing his colleague's points, arguing that maintaining a good

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economic relationship between Taiwan and the U.S. is critical in meeting stated goals. An economically prosperous and stable Taiwan is in the best interest of the U.S., yet Wang outlined how current U.S. actions negatively impact this goal. He argued that although the U.S.-Taiwan partnership is different than other American foreign partnerships, trade agreements should still be conducted without preconditions that hinder progress.

Taiwan has been firmly in the American camp so far, but Wang highlighted Taiwan's growing dependence on China economically. It is now more important than ever for the U.S. to engage Taiwan. Criticizing Taiwan could serve to isolate it or force it to draw closer with China, according to Wang. Concluding, Wang reiterated Robert Sutter's earlier assertion: the U.S. needs an economic strategy for Taiwan that builds off of security strategies already in place for the Asia-Pacific. Without a coherent strategy, Taiwan's stake in the international community could suffer as China continues to put pressure on the island.

It can be surmised from these discussions that the future of U.S.-Taiwan relations rests on formulating a coherent strategy with attainable goals. The current Administration's stop-and-go approach when dealing with Taiwan has negatively impacted economic ties with a major trading partner. Lack of engagement will allow China to further influence Taiwan bilaterally and through multilateral economic initiatives. Because of Taiwan's expertise in high-tech manufacturing, the U.S. economy would benefit from more robust ties and could do more to limit China's influence on Taiwan's sovereignty.

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By Justin Seledyn, Research Assistant, Rising Powers Initiative, Sigur Center for Asian Studies

About the Sigur Center for Asian Studies and Rising Powers Initiative

The Sigur Center for Asian Studies is an international research center of The Elliott School of International Affairs at The George Washington University. Its mission is to increase the quality and broaden the scope of scholarly research and publications on Asian affairs, promote U.S.-Asian scholarly interaction and serve as the nexus for educating a new generation of students, scholars, analysts and policymakers. The Sigur Center houses the Rising Powers Initiative, a multi-year, multi-project research effort that studies the role of domestic identities and foreign policy debates of aspiring powers.



The Sigur Center's Asia Report series provide summaries of events hosted by the Center. The Sigur Center's Rising Powers Initiative examines how domestic political debates and identity issues affect international relations in Asia.

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