



Insight

White House's New Initiative with Taiwan Falls Short of a Free Trade Agreement

TORI SMITH | JUNE 8, 2022

Executive Summary

- The United States and Taiwan announced the U.S.-Taiwan Initiative on 21st Century Trade, 10 days after Taiwan was left out of the Indo-Pacific Economic Framework (IPEF).
- The new initiative is a bilateral version of the IPEF, but it is seemingly duplicative of the three other economic forums held between the United States and Taiwan.
- Similar to the IPEF, this initiative with Taiwan lacks market access commitments that a trade agreement would provide, limiting the potential for substantive economic benefit from the new negotiations.

Introduction

On June 1, the United States and Taiwan announced a new forum for economic engagement called the [U.S.-Taiwan Initiative on 21st Century Trade](#). This initiative comes just days after the Biden Administration announced the [Indo-Pacific Economic Framework](#) (IPEF). Taiwan was notably left out of the IPEF, and this new bilateral initiative ostensibly represents a consolation prize for the country.

The Initiative on 21st Century Trade will cover 11 areas of economic and trade policy, ranging from agriculture regulations to standards for state-owned enterprises. Nine of the 11 areas for negotiation in this new initiative would overlap with those of the IPEF. Finally, like the IPEF, this new initiative does not include negotiations on market access, limiting the potential for substantive economic benefit from the discussions.

This paper explains why Taiwan was not included in the IPEF, what the Initiative on 21st Century Trade seeks to accomplish, how this new initiative relates to the three existing bilateral economic forums between the United States and Taiwan, and what the new initiative means for the prospects of a bilateral trade agreement.

U.S.-Taiwan Initiative on 21st Century Trade

Leading up to the formal announcement of the IPEF, Taiwan [requested](#) to be included in the framework, and support for this request from members of Congress,^[1] the [business community](#), and think tanks^[2] was strong. Ultimately, Taiwan was not made a party of the IPEF launch in Japan on May 23. Nevertheless, at the time, the White House [signaled](#) that a parallel effort to further economic engagement with Taiwan was likely.

The executive branch has not explicitly stated the reason for excluding Taiwan from the IPEF. Scholars at the Center for Strategic and International Studies [suggested](#) “the island was ultimately left out of the framework to secure the participation of other South and Southeast Asian countries reluctant to antagonize Beijing.” This assessment has merit. Many of the countries included in the IPEF rely heavily on trade with China and the

mainland's willingness to deploy economic coercion measures is on their radar.

Ten days after launching the IPEF, the Office of the United States Trade Representative (USTR) issued a press release announcing the U.S.-Taiwan Initiative on 21st Century Trade. According to USTR, the initiative “is intended to develop concrete ways to deepen the economic and trade relationship, advance mutual trade priorities based on shared values, and promote innovation and inclusive economic growth for our workers and businesses.” U.S. and Taiwanese officials are expected to meet later this month to establish a plan for conducting negotiations under this initiative.

Comparison to the IPEF

The new initiative's 11 negotiation areas overlap substantially with those of the IPEF. Both efforts will address trade facilitation, regulatory practices, agriculture, small and medium enterprises, digital trade, “worker-centric trade,” and international standards. The third IPEF pillar on infrastructure, clean energy, and decarbonization will likely have goals similar to the new initiative's efforts on environment and climate policies. Finally, the new initiative's anticorruption area will likely be similar to the IPEF's fourth pillar on tax and anti-corruption.

Two areas of negotiation were included in the initiative with Taiwan that have not been mentioned as part of the IPEF: state-owned enterprises and non-market economies. These two areas are part of newer trade agreements that the United States has negotiated – namely the United States-Mexico-Canada Agreement – and represent major areas of policy disagreement between mainland China and the United States. It is notable that Taiwan agreed to conduct talks on these topics, perhaps signaling its intention to emphasize its differences with mainland China's economic system.

Existing U.S.-Taiwan Economic Dialogues

At face value, the U.S.-Taiwan Initiative on 21st Century Trade appears to be a consolation prize for Taiwan. The country requested to be included because Taiwan is often excluded from international organizations and regional agreements. If any regional effort could include Taiwan, it is most likely to be U.S.-led.

The new bilateral initiative could also be duplicative of the other frameworks and dialogues that already exist between the United States and Taiwan. USTR directs the [Trade and Investment Framework Agreement \(TIFA\)](#), which has existed since 1994. The TIFA was established to provide a forum for removing barriers to trade and investment. The most recent TIFA talks were held by the Biden Administration in June 2021. The U.S. State Department held the second annual [U.S.-Taiwan Economic Prosperity Partnership Dialogue \(EPPD\)](#) in November 2021. The purpose of the EPPD is to discuss “supply chain resiliency, countering economic coercion, promoting the digital economy, strengthening 5G network security, and advancing collaboration in a variety of science and technology fields.” Additionally, the U.S. Department of Commerce announced in December 2021 the [Technology Trade and Investment Collaboration \(TTIC\)](#), which seeks to “develop commercial programs and explore actions to strengthen critical supply chains.” In short, there is no lack of forums for economic dialogue between the United States and Taiwan. The Initiative on 21st Century Trade most certainly overlaps with the TIFA and EPPD, although perhaps less so with the TTIC.

New Initiative Falls Short

Taiwan is certainly an important economic partner; in 2020, Taiwan was America's ninth-largest trading [partner](#). There is long-standing, bipartisan [support](#) in Congress for a bilateral trade agreement. The country is also a top

international supplier of semiconductors. Like the IPEF, however, the Initiative on 21st Century Trade lacks any commitment to lower tariff barriers. The other positive aspects of the initiative could likely be pursued in existing forums. Without new market access, it is unlikely that this new initiative will substantively increase trade between the United States and Taiwan.

The best way to deepen economic ties with Taiwan – a goal USTR says it desires – is to pursue a bilateral trade agreement. Indeed, a [recent report](#) found that a free trade agreement between the United States and Taiwan that eliminates tariffs and reduces non-tariff barriers would increase U.S. total trade by \$6.2 billion and Taiwanese total trade by \$3.8 billion. Such an agreement would also increase gross domestic product for both countries and result in trade diversion from China, another outcome sought by USTR.

[1] <https://mariodiazbalart.house.gov/media-center/press-releases/taiwan-caucus-urges-commerce-ustr-include-taiwan-indo-pacific-economic>; and <https://www.foreign.senate.gov/press/chair/release/menendez-risch-lead-50-colleagues-in-letter-to-potus-championing-taiwans-inclusion-in-proposed-indo-pacific-economic-framework-ipef>

[2] <https://www.heritage.org/asia/commentary/why-us-indo-pacific-economic-framework-must-include-taiwan>; and <https://www.hudson.org/research/17867-the-white-house-s-taiwan-faux-pas>