Written by Angeline Tan on January 18, 2023

In Defiant Move Against China, US, Taiwan Conclude First Round of Bilateral Trade Negotiations

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SINGAPORE — The United States and Taiwan concluded four days of trade negotiations on Monday, January 17, and reached an agreement in a number of fields linked to trade facilitation, anti-corruption, small and medium-sized enterprises, and regulatory practices, the U.S. Trade Representative's (USTR) office announced.

The first major negotiating round of the U.S.-Taiwan Initiative on 21st Century Trade concluded with both sides exchanging texts on those areas in Taipei. "Officials also reached consensus in a number of areas and pledged to maintain an ambitious negotiating schedule in the months ahead to continue this momentum," the USTR said.

The talks, which will not entail any tariff reductions or traditional market-access enhancements, are intended to reach agreements with "economically meaningful" outcomes and will encompass discussions on China's "economic coercion," a Taiwan official said.

In 2022, Taiwan was excluded from a wider U.S. trade initiative involving Indo-Pacific countries also concentrating on non-tariff issues.

The USTR stated that the texts exchanged during the Taipei negotiating round "follow through on the two sides' shared commitment to pursue a high-ambition trade initiative" to "strengthen and deepen economic and trade ties." The USTR failed to mention a specific date for the next round of negotiations, indicating that this would be revealed at a later date.

The USTR said congressional staff participated in the meetings and were briefed by USTR officials throughout the discussions.

In October last year, Taiwan's Finance Minister mentioned the need for the island to diversify its trade away from China, citing escalating geopolitical tensions between Washington and Beijing as well as Chinese leader Xi Jinping's recent policies dealing with Covid-19.

Recent U.S. technology sanctions enforced on China have "increased the uncertainty of the market," Finance Minister Su Jain-rong said in an interview after the Asia-Pacific Economic Cooperation finance ministers' meeting in Bangkok. He elaborated that one of Taiwan's aims is to "try to diversify our trade partners, our trade market, so that we are not going to put all our eggs in one basket."

Taiwan's export-dependent economy had been affected in 2022 by declining demand from China and around the world. Overseas shipments fell in September for the first time since 2020, while export orders dropped for the third time in 2022. Officials have blamed the drop-off mainly on China, as the then zero-Covid policy and a property slump reduced consumer and business confidence there.

Increasingly frosty U.S.-China ties have further dampened Taiwan's economic outlook and adversely impacted the global semiconductor industry. Following the U.S. declaration to increase controls over chip exports to China, shares in Taiwan Semiconductor Manufacturing Co. dropped the most in 28 years.

The firm manufactures chips for key firms that depend on the Chinese market for most of their business, while also getting about 10 percent of its revenue from China-based customers. "The United States is concerned about the supply chains of advanced chips," Su stated.

He added that the Covid-19 restrictions and U.S.-China disputes have reduced Taiwan's exports to China and Hong Kong over the past couple of years to less than 40 percent of the island's total exports.

Su admitted that Taiwanese businesses have already begun shifting factories from China to Southeast Asian countries like Vietnam and Thailand, especially in machinery and other labor-intensive sectors. In recent years, Taiwan has been looking to reduce its economic reliance on China by exploring ways to boost trade and investment with Southeast Asia, India, Australia, and New Zealand.

Su also said Taiwan has been looking "very carefully" at how to manage financial stability, as the local dollar weakened in 2022 and the benchmark Taiex index has declined, falling nearly 30 percent in 2022 and ranking among the world's worst-performing gauges.

Global funds withdrew a net US$47 billion from local equities in 2022, causing Taiwan to experience its largest yearly outflow in more than twenty years, and the U.S. Federal Reserve's interest-rate hikes led to "a lot of problems for financial markets around the world, not just Taiwan," Su said.

An additional issue is the rising costs of imports, and as Taiwan imports a lot of its raw materials from abroad, imported inflation is another problem. Should the Fed persist in increasing rates, the "Taiwanese dollar and financial stability may be affected significantly," Su said. "It's not easy to handle it, but we have to face it."

The widespread new trade controls the Biden administration imposed on exports of technology to China last year were supposedly to prevent or at least postpone Beijing's attempts to make advanced semiconductors, which are of vital military as well as economic significance.

U.S. trade representative Katherine Tai has urged that American industrial policy be aimed in part at defending national security. She lambasted China's "state-directed industrial dominance policies" and stated that the efficiency gains from trade liberalization "cannot come at the cost of further weakening our supply chains (and) exacerbating high-risk reliances." On the same day, the Biden administration unveiled its new export controls aimed at China.

Notably, U.S. regulators have tapped on a particular rule to restrict trade of certain products to countries like China. This provision is known as the "Foreign Direct Product Rule," or FDPR, and was first unveiled in 1959 to limit the trading of U.S. technologies.

Essentially, this rule states that if a product was made using American technology, the U.S. government has the authority to prevent it from being sold, even if the product is made in a foreign country. In recent years, U.S. regulators have relied on it to extend their technology export-control powers to transactions between foreign countries and China.

For example, in August 2020, this rule came under the spotlight when it was employed against Chinese telecom firm Huawei Technologies. U.S. officials had attempted to deprive Huawei of its supply of semiconductors, yet they discovered that firms were still shipping Huawei chips made in factories outside America.

As almost all chip factories contain critical tools from U.S. suppliers, American regulators expanded the FDPR to restrict trade of chips made using U.S. technology or tools, dealing a major blow to Huawei's smartphone business.