
BUSINESS GROUP SAYS FTA WITH TAIWAN BEST WAY TO KEEP CHINA, TAIWAN STABLE

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The president of the U.S.-Taiwan Business Council last week argued that the lack of a free trade agreement between the U.S. and Taiwan will soon erode Taiwan's economic strength in the Asia-Pacific region, and thus weaken its status to the point of making it more vulnerable to economic and military pressure from China. As a result, the U.S. needs to consider an FTA with Taiwan in the coming years or run the risk that China's power and influence over Taiwan grows to the point of upsetting the delicate balance that exists today, he said.

The issue of ensuring Taiwan's economic strength is particularly relevant in the wake of the recently-announced FTA between China and countries in the Association of South East Asian Nations (ASEAN), according to Council President Rupert Hammond-Chambers.

He made these remarks at a Dec. 10 discussion hosted by the Institute for International Economics. IIE the same day released a study that said a bilateral FTA would produce some significant gains for both the U.S. and Taiwan, but added that these gains would not be as large as those accruing from other FTAs the U.S. could strike. In many cases, a U.S.-Taiwan FTA would lead to trade diversion instead of the creation of new trade, according to the study.

Nonetheless, Hammond-Chambers indicated in his comments that the U.S. will likely be faced with the much larger question of how to maintain the status quo between China and Taiwan. This is a reference to remarks made by the Bush Administration in late 2003, when it said in stark terms that it did not support any attempt by either China or Taiwan to alter the status quo in a way that shifts the advantage in the tense cross-strait relationship. Hammond-Chambers said after the event that the administration has clearly indicated that it believes arms sales to Taiwan are integral to maintaining the status quo, but agreed that there has been little discussion so far on whether keeping the status quo requires more than just arms sales.

In his formal comments, Hammond-Chambers argued that economic stability is another factor that the U.S. needs to consider as well. "Economic stability is a status quo issue, too," he said, adding that if Taiwan's economic might were reduced, it would put Taiwan in a weaker position relative to China. He also argued that U.S. efforts to reach out to Taiwan would also help Taiwan participate in multilateral trade liberalization efforts, as China has so far made every effort to exclude Taiwan in these areas.

Hammond-Chambers also rejected the argument that a U.S. decision to enter FTA talks with Taiwan would be a mistake because it could prompt China to take some action that in itself might erode the status quo in China's favor. Hammond-Chambers said China objects to many decisions relating to Taiwan, and said a bilateral FTA would clearly be in the U.S. interest, and would require the U.S. to "push back" against China when the time comes.

Hammond-Chambers said his group has not put forward this argument in favor of the FTA to the Bush Administration, but said the Council would begin building this case for the FTA in the next two years. He said his group hopes the administration will be in a position to announce that it will start negotiating an FTA with Taiwan in the next 18 to 24 months, and said the Council would spend that time building a consensus for the FTA in Congress and among industry groups.

He also argued that efforts to build a coalition would likely be tricky given China's opposition, and said it would not look like other coalitions on trade that have been put together in the past. For example, he said he expects U.S. companies invested in China will continue to want to keep their support for an FTA private, over fears that public support could lead to repercussions in China.

Hammond-Chambers also said that the U.S. was correct in playing down the prospects of a bilateral FTA for now, as this tactic gives the U.S. leverage as it works on getting Taiwan to improve market access in a range of areas. The U.S. and Taiwan met late last month in the first set of talks under the bilateral trade and investment framework agreement (TIFA), and sources report that the U.S. has acknowledged Taiwan's progress in resolving some of these issues, particularly the question of intellectual property rights enforcement (see separate story).

Hammond-Chambers' reasoning for an FTA with Taiwan was largely backed by the authors of the IIE study, Nicholas Lardy and Daniel Rosen. In comments made at the same event, Lardy agreed with Hammond-Chambers that the so-called status quo between China and Taiwan is a moving target, and argued that the U.S. should not presume the status quo is maintained by not striking an FTA with Taiwan. Instead, he said the FTA would help maintain the status quo.

Rosen also argued that a U.S.-Taiwan FTA could make it easier for other Asian countries, such as Japan and Korea, to press for their own FTAs with Taiwan. This would help cement Taiwan's economic status in the region at a time when it risks being marginalized by China.

Rosen added that a willingness in China to make room for Taiwan in economic talks would make it less necessary for the U.S. to seek an FTA. Overall, he said an FTA would be positive for Taiwan if it leads to further integration, and a negative if it ends up distracting Taiwan from integration.

In terms of the economic gains an FTA would bring, Lardy said the study predicts that about 40 percent of the U.S. gains would be in the auto sector, which could increase its share of the auto and parts market in Taiwan. Taiwan would likely see increased apparel exports to the U.S. under an FTA, although Lardy acknowledged that any gains in this area would not be due to trade creation, but rather trade diversion, or U.S. decisions to source from Taiwan rather than other suppliers.

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