



**Comments Regarding Causes of Significant
Trade Deficits for 2016**

Docket: ITA-2017-0003

May 10, 2017

**Includes Request to Appear at the Public Hearing on May 18, 2017
International Trade Administration, Department of Commerce
1401 Constitution Avenue, NW
Washington, DC,**

Submitted by the US-Taiwan Business Council

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Introduction

On March 31 2017, President Donald Trump signed Executive Order 13786, directing the Department of Commerce and the Office of the U.S. Trade Representative (USTR) to work with other relevant agencies within the U.S. government to produce an *Omnibus Report on Significant Trade Deficits*.

Taiwan has been identified as one of the 14 foreign trading partners with which the U.S. had a significant trade deficit in 2016, and the U.S.-Taiwan trade relationship will therefore be investigated under this directive.

The US-Taiwan Business Council, formed in 1976, is a non-profit, membership-based organization dedicated to developing the trade and business relationship between the United States and Taiwan. Members consist of public and private U.S. companies with business interests in Taiwan, and range in size from small consulting firms to large multinational corporations. The organization aspires to be an effective representative for those members in dealing with business, trade, and investment matters between the United States and Taiwan.

Since its inception, the Council has worked with our members and with the U.S. and Taiwan governments to support the bilateral trade and commercial relationship. For example, we played a key role in the business discussions in the lead-up to Taiwan joining the World Trade Organization (WTO) in 2002.

The US-Taiwan Business Council appreciates this opportunity to submit our comments to the International Trade Administration as part of your preparatory research for the *Omnibus Report*.

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Trade, Trends, and the U.S. Trade Deficit with Taiwan

To better understand the U.S.-Taiwan bilateral trade relationship, it is instructive to briefly examine both trade trends and trade deficit trends and rankings.

In 2016, Taiwan was the 10th largest trading partner of the U.S., while the U.S. was Taiwan's second largest trading partner. The U.S. is actually regaining ground in Taiwan, taking the 2nd position from Japan in 2014 after losing the number one spot as Taiwan's largest trading partner to China in 2005.¹

Figure 1 illustrates U.S. Census Bureau trade figures for Taiwan between 1986 and 2016. It is worth noting that imports and exports have both risen similarly and together over the last 30 years. The 2016 trade deficit at US\$13.3 billion is well within its historic range for Taiwan - with the average for the last 30 years at \$12.9 billion per year - and it also represents an 11.8% decrease over 2015. The U.S. trade deficit with Taiwan was at its highest in 1987, and at its lowest in 1993.

We also examined Taiwan's relative position during the last ten years of U.S. trade deficit rankings, see **Table 1**. Between 2006 and 2016, Taiwan did not appear even once in the Top-Ten list of countries with the largest trade deficits with the United States. Indeed, Taiwan's highest ranking during the last decade was 12.

Based on the information disseminated by the International Trade Administration, the final *Omnibus Report* will examine the European Union as one entity together. In fact, individually some EU countries - such as Italy - actually account for a larger share of the overall U.S. trade deficit than Taiwan does. **Table 2** compares Taiwan's share of the overall U.S. trade deficit with that of China and Italy during the last ten years.

Trade Obstacles

Taiwan is generally not engaging in unfair and discriminatory trade practices, and is working towards liberalizing their domestic trade regime and improving transparency. Some market protections remain, and various barriers to open and free trade with Taiwan are actively tracked by USTR. However, Taiwan's accession to the WTO in 2002 and to the WTO Government Procurement Agreement in 2009 led to a general dismantling of non-tariff barriers and a lowering of tariffs.

While there are certainly obstacles remaining to address between the U.S. and Taiwan on trade, existing and future issues have a resolution mechanism via the Trade and Investment Framework Agreement (TIFA) signed in 1994. The two sides currently use TIFA meetings as the principal means for trade dialogue. The most recent TIFA meeting took place in October of 2016, and included discussions on intellectual property rights protection, pharmaceuticals, medical devices, agriculture, and technical barriers to trade.

One of the continuing irritants in the trade relationship is the U.S. insistence that Taiwan respect international maximum residue limits established for ractopamine -- a leanness-enhancing compound currently banned in pork imports to Taiwan. The Taiwan government is continuing to work towards a solution on these pork imports, and has said that it will conduct risk assessments based on scientific evidence and international regulations. The U.S. business community is optimistic that this issue can be resolved.

¹ USTR Fact Sheet on Taiwan (<https://ustr.gov/countries-regions/china/taiwan>) & Trade Statistics from the Taiwan Bureau of Foreign Trade (<http://cus93.trade.gov.tw/FSCE040F/FSCE040F>). Retrieved 5/8/2017.

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Attitudes Towards the United States

The United States is not a particular target for market protection schemes by Taiwan. The trade obstacles that U.S. businesses would like to see addressed are generally applied across the board – the U.S. has not been singled out for any specific punitive measures.

In fact, there are some instances where the U.S. has advantages over other competitors exporting to Taiwan. One example is Taiwan's Country Specific Quota (CSQ) system on public sector rice imports. Only three other countries have a CSQ for rice - Australia, Thailand, and Egypt. According to the U.S. Department of Agriculture, the U.S. holds almost 70% of Taiwan's total CSQ allotment for rice in 2017.² In addition, Taiwan consumers are in general predisposed in favor of U.S. brands and U.S. commerce, with U.S. products enjoying strong market positions and positive brand equity.

National Security Issues

Taiwan is an important ally for the United States on national security issues, and works closely with the U.S. to promote regional stability in the Asia Pacific along with peace and security in the Taiwan Strait. Military exchanges with Taiwan are frequent and significant. In a report to its legislature, the Taiwan Ministry of National Defense estimated that in 2016 senior U.S. military personnel made more than 1,000 visits to Taiwan, while Taiwan personnel made more than 900 reciprocal visits on 170 different projects.

Taiwan is also an important market for military articles made in the U.S., as the island currently procures the vast majority of its military equipment from the United States. Arms sales to Taiwan support the U.S defense industrial base and associated sectors - such as avionics, aerospace, and advanced materials - across the country.

² USDA Foreign Agricultural Service, "Taiwan Completes First Tranche of 2017 U.S. Rice Tenders" GAIN Report TW17002, 3/15/2017.

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An Expanded View of the U.S.-Taiwan Trade and Commercial Relationship

The US-Taiwan Business Council believes that the U.S. trade deficit with Taiwan should not be the only gauge for determining how important or beneficial the trade and commercial relationship with Taiwan is to the U.S. economy, as well as to the many U.S. businesses with operations on the island or with partnerships with Taiwan companies.

More than 600 Taiwan companies currently have investments in the United States, many in important sectors such as technology, financial services, and biotechnology. Examples include Nan Ya Plastics, which has been expanding their plant in South Carolina since 1990. Taiwan tech companies with investments in the U.S. include Foxconn, Acer, ASUS, and MiTAC, as well as semiconductor companies TSMC and UMC. In addition to production locations, many of these companies have various venture capital investments in the U.S. as well, including in tech startups. Taiwan's Foreign Direct Investments in the United States was US\$7.0 billion in 2015, an increase of 14.1% from 2014.³

In 2016, a study published by the Taiwan government and the Taiwan External Trade Development Council suggested that an estimated 323,456 U.S. jobs were supported by the U.S. trade and investment relationship with Taiwan. Investment by Taiwan companies accounted for 97,122 of those jobs, while exports of goods accounted for 135,362, and export of services accounted for 90,972. The estimate was based on trade data and surveys of Taiwan companies throughout the U.S.⁴

Taiwan is also an important production partner for U.S. businesses. Taiwan is a major global manufacturing center, and there are many U.S. companies long established there. Examples include IBM (1956), DuPont (1969), 3M (1968), Micron, Ford, and Proctor & Gamble. Corning has been established in Taiwan since 1971, and has two of the world's largest glass display facilities based on the island.

The importance of Taiwan in the global technology supply chain cannot be overstated. Taiwan is a major supplier of integrated circuits/chips to U.S. companies like Apple, Qualcomm, and Nvidia. With Taiwan playing a key role in originating the foundry model (separating chip design from chip production), it is currently home to a large cluster of top-of-the-line chip fabrication plants, and in 2016 held the largest share of IC wafer fab capacity globally at 21.3%.⁵

In addition, while many Taiwan technology companies began as Original Equipment Manufacturing (OEM) and Original Design Manufacturing (ODM) producers for U.S. brands, the last decade has seen deepening cooperation between U.S. and Taiwan businesses in the technology sector. U.S. companies are taking advantage of Taiwan as a tech cluster, utilizing the expertise, engineering capabilities, and creativity of the Taiwan labor force to push for momentum in innovation and internet-enabled technologies; IoT, cloud computing, wearables, Virtual Reality, etc.

U.S. companies like HP, Dell, IBM, Intel, DuPont, and Microsoft have established Research & Development centers in Taiwan to drive innovation - not just in Taiwan but for their Asia and global operations. Google, IBM, and Microsoft have established cloud computing centers on the island, and a Hollywood special effects firm is running its Animation and Visual Effects cloud processing in Taiwan.

Taiwan server companies (Hon Hai, Inventec, Quanta) are working with Amazon and Google on Big Data processing. There is also cooperation on FinTech – U.S. companies working with Taiwan banks and financial services companies

³ USTR, op.cit.

⁴ TECRO and TAITRA, "Taiwan Trade and Investment: Creating and Supporting American Jobs" 2016.

⁵ IC Insights, "Global Wafer Capacity 2017-2021 - Detailed Analysis and Forecast of the IC Industry's Wafer Fab Capacity" 02/23/2017.

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on mobile payment apps, digital wallets, etc. Of particular interest is the nascent Virtual Reality industry, with a focus on graphics processors, connectors/components, and advanced chips. The Taiwan-produced HTC Vive - built in cooperation with U.S. gaming company Valve, is positioned at the pinnacle of the virtual reality industry.

Technology trade exerts an outsized amount of influence on the U.S. trade relationship with Taiwan. However, many of the components of this relationship do not get factored into the trade deficit, which is focused exclusively on goods. For example, there is a flourishing technology licensing trade between the two, and Taiwan was the world's ninth largest source of payments to the United States for intellectual property in 2015.⁶

By focusing on the U.S. trade deficit in goods, a significant portion of bilateral trade – the trade in services with Taiwan – is not adequately accounted for. According to USTR, services trade with Taiwan (exports and imports) totaled an estimated \$19.6 billion in 2016. Services exports were \$11.9 billion while services imports were \$7.7 billion, and therefore the U.S. services trade surplus with Taiwan was \$4.2 billion in 2016.⁷

Conclusion

The US-Taiwan Business Council believes that U.S. trade with Taiwan is mutually beneficial, despite the consistent trade deficit in favor of Taiwan that has persisted for the last 30 years. It is not a “zero sum” endeavor where U.S. exports should be counted as wins and imports from Taiwan should be counted as losses – particularly as the official trade deficit data does not cover the entirety of the complex trade relationship between the two partners.

Taiwan plays a tremendously important role both as a market for U.S.-made goods and as a manufacturing and innovation partner for U.S. businesses. Trade with Taiwan - along with extensive investments by Taiwan businesses in the U.S. - generally promotes economic growth in the United States and supports U.S. jobs across the country and in many industries.

Taiwan is a trusted partner whose prominent role in the global technology supply chain makes it a critical market for U.S. technology companies, who sell significant quantities of production equipment to Taiwan, as well as license U.S. intellectual property to Taiwan companies. Business-to-business relationships with Taiwan have contributed to the emergence of U.S. companies as global leaders in cutting-edge technology.

The extensive U.S.-Taiwan trade and commercial relationship has been, and will continue to be, an important component of an excellent overall bilateral relationship that has flourished despite the lack of formal diplomatic relations.

⁶ American Institute in Taiwan, “AIT Holds Technology Licensing Expert Dialogue” AIT Press Release 1708E, 03/30/2017.

⁷ USTR, op.cit.

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Tables & Figures

Table 1: Taiwan's Trade Deficit Ranking, 2006-2016

Year	Ranking
2006	12
2007	16
2008	19
2009	15
2010	21
2011	12
2012	16
2013	17
2014	16
2015	14
2016	14

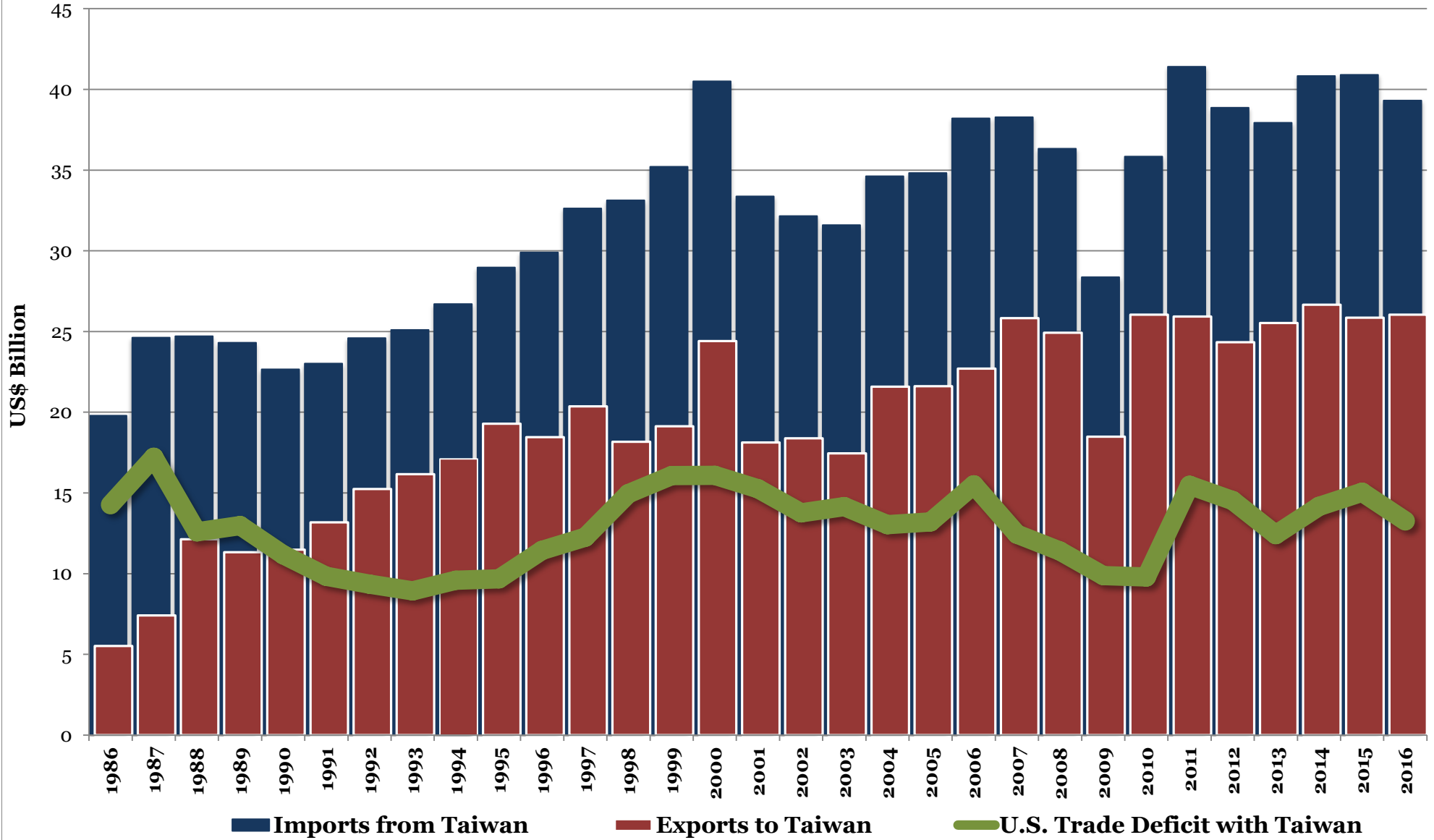
Source: U.S. Census Bureau, Exports, Imports and Trade Balance by Country

Table 2: Taiwan's % Share of the Total U.S. Trade Deficit, 2006-2016

	China	Italy	Taiwan
2006	28.27%	2.43%	1.87%
2007	31.96%	2.58%	1.54%
2008	32.84%	2.53%	1.40%
2009	45.05%	2.81%	1.96%
2010	42.97%	2.25%	1.54%
2011	40.70%	2.47%	2.13%
2012	43.14%	2.86%	1.99%
2013	46.22%	3.18%	1.80%
2014	46.91%	3.46%	1.93%
2015	49.24%	3.75%	2.02%
2016	47.24%	3.87%	1.81%

Source: U.S. Census Bureau, Exports, Imports and Trade Balance by Country

Figure 1: U.S.-Taiwan Trade, 1986-2016



Source: U.S. Census Bureau, *Exports, Imports and Trade Balance by Country*