

# **A Golden Opportunity for a U.S.-Taiwan Free Trade Agreement**



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## Introduction

Speaking at the opening of the Asia-Pacific Security Dialogue in Taipei in July 2018, Taiwan (Republic of China, ROC) president Tsai Ing-wen noted, “Taiwan has been at the forefront of defending our shared democratic values, which are the foundation of the existing order that leads to prosperity for all. Our challenge today,” she continued, “is to find ways to work together, and ensure that our shared interests will survive any unwanted economic, political, or military coercion.”<sup>1</sup> Perhaps too often, discussions about U.S.-Taiwan relations focus on the political and military aspects of the relationship, and mistakenly underemphasize economics. Deepening economic ties, however, would contribute to shaping the “free and open” Indo-Pacific region that American leaders have described, and to pursuing goals outlined in the U.S. National Security Strategy.<sup>2</sup>

In order to deepen economic ties and to, at the same time, advance the Indo-Pacific strategy, the United States should prioritize a free trade agreement (FTA) with Taiwan. The U.S. has not completed or ratified a free trade agreement since the U.S.-Korea deal. It is now negotiating with Japan and the Philippines. But, as this paper will show, an FTA with Taiwan would have substantial strategic benefits and would, moreover, be far easier to conclude than other agreements under discussion.

## Why a Taiwan FTA?

An FTA with Taiwan would advance the goal of a “free and open” Indo-Pacific, a policy Secretary of State Mike Pompeo articulated in a speech to the U.S. Chamber of Commerce in July 2018:

*When we say “free” Indo-Pacific, it means we want all nations, every nation, to be able to protect their sovereignty from coercion by other countries. At the national level, free means good governance and the assurance that citizens can enjoy their fundamental rights and liberties.*

*When we say “open” in the Indo-Pacific, it means we want all nations to enjoy open access to seas and airways. We want the peaceful resolution of territorial and maritime disputes. This is key for international peace and for each country’s attainment of its own national aims.*

*Economically, “open” means fair and reciprocal trade, open investment environments, transparent agreements between nations, and improved connectivity to drive regional ties—because these are the paths for sustainable growth in the region.*

Taiwan is itself already free and open. It has undertaken a remarkably successful transition to democracy over the past three decades and now exemplifies a society in which individual rights are not only protected but celebrated, and citizens are engaged in self-government— which is generally marked by good governance. It has embraced the liberal international economic order, and depends on the free flow of trade for its economic well-being.

Year after year, Taiwan is a top-14 trading partner for the United States. Taiwan was America's seventh largest agriculture export market in 2016 (\$3.2 billion) and is also an important market for U.S. machinery (\$5.4 billion), electrical machinery (\$5.2 billion), aircraft (\$3.2 billion), and optical and medical instruments (\$1.8 billion).<sup>3</sup>

It occupies a key node in the global supply chain, including for important American tech companies like Apple and Micron. The Taiwan Semiconductor Manufacturing Company, LTD (TSMC) supplies chips to companies such as Qualcomm, Nvidia, and Advanced Micro Devices. Without Taiwan's semiconductor and information and communication technology (ICT) industries, many of the world's most ubiquitous consumer electronics would not exist or, perhaps, would rely on China's (People's Republic of China, PRC) industry to the detriment of the United States.

Even so, when it comes to Pompeo's second definition of "open"—particularly his emphasis on "fair and reciprocal trade" and "open investment environments"—Taiwan is not the regional leader it could be. To be sure, Taiwan is more open than other large, important Asian economies like China, Vietnam, Indonesia, India, and the Philippines. In some ways, it is arguably more open than Japan and South Korea. But given its precarious position vis-à-vis China and its relative diplomatic isolation, it behooves Taiwan to outpace the rest of the pack, due both to the economic benefits that would accrue to the island and to the positive diplomatic and security implications that would accompany Taiwan's embrace of regional leadership on economic issues. Taiwan should seek to set the gold standard in economic openness, as well as in the legal, regulatory, and standards frameworks that will govern emerging technologies and industries such as 5G, the internet of things (IOT), artificial intelligence (AI), and the future industries to be built upon them. A high-standards FTA with Taiwan, moreover, would provide a model for Southeast Asian countries that want to develop their own high-tech economies. The United States should make clear that it sees a U.S.-Taiwan FTA as a roadmap for deepening economic ties with Southeast Asian states and providing them a path towards greater prosperity.

The United States, meanwhile, should seek to abet Taiwan in such an effort. Deteriorating stability in the Taiwan Strait, due largely to a dangerous combination of hostility and inflexibility from Beijing, threatens to upend regional peace if balance is not restored. Closer U.S.-Taiwan ties across the board, including in the economic relationship, would contribute to righting that imbalance, dissuading Beijing from further unsettling actions, and ensuring that this crucial neck

of the Indo-Pacific woods remains free. The U.S. has a vital interest in cross-strait stability, and that can only be assured if the people of Taiwan believe they will not be overwhelmed economically by Beijing. An FTA with the United States would signal that Taiwan has many economic options, and open the door for other countries to follow suit. Taiwan's current and future political leaders would find that an FTA allowed them to engage with Beijing, and with the broader international community, from a position of greater strength.

Moreover, closer bilateral coordination on issues at the nexus of economics and national security could counter specific threats to both countries and to regional order. Bloomberg's recent exposé on the Chinese government's successful tampering with hardware to enable cyber espionage against end-users, including the U.S. military, highlighted the dangers posed by China's prominent position in global technology supply chains.<sup>4</sup> Chinese attempts to set industrial standards for 5G and otherwise monopolize the next generation of mobile technology likewise pose a challenge to the United States, and its allies and partners, on both economic and national security grounds. Taiwan may understand these issues better than any other U.S. partner, and thus tackling them together is in the interests of both.

Finally, if the Trump administration is serious about promoting an open economic order across the Indo-Pacific and remains skeptical of multilateral trade agreements, it has to start somewhere. The first new bilateral free trade agreement completed under the "free and open" Indo-Pacific strategy will signal the administration's vision for the region. Recently launched trade talks with Tokyo suggest that a U.S.-Japan FTA could be the region's marquee trade deal, intended to set standards for the Indo-Pacific's maturing economic order. Indeed, Japan is an attractive option for an opening economic gambit in Asia. As Derek Scissors has argued previously:

*A U.S.-Japan FTA will appeal to governments that wish to enhance competition and property rights and could eventually pressure governments that act to undermine competition and property rights. More specifically, it will appeal to American allies and friends who want a zone of open market in Asia as an alternative to Chinese state capitalism.<sup>5</sup>*

The benefits of a U.S.-Japan deal are clear, but it is worth considering Taiwan as an alternative opening move. For most of the first two years of the Trump administration, Tokyo was adamant that it would not enter talks for a bilateral trade deal, instead focusing on completing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and encouraging Washington to join. It was only under threat of automobile sanctions that Prime Minister Shinzo Abe eventually agreed to the bilateral trade initiative.

In Taiwan, a free trade agreement with the United States is perhaps the top priority for President Tsai Ing-wen. Taipei and Washington share important priorities on items like protecting intellectual property (IP), establishing legal and regulatory frameworks, and setting data usage and cyber-security standards for the next tech industry breakthroughs. The Tsai government appears willing to make what may be politically difficult domestic reforms within the context of a bilateral deal with the United States.

U.S.-Taiwan negotiations would also have the benefit of following the successful conclusion of the United States-Mexico-Canada Agreement (USMCA). Negotiators should be able to model important chapters in any U.S.-Taiwan agreement on those in the USMCA. In particular, provisions in USMCA chapters on telecommunications (chapter 18), digital trade (chapter 19), and state-owned enterprises (chapter 22) should be relatively easy for Taiwan to adhere to. Among other things, these chapters provide for reasonable non-discriminatory access and use of public telecommunications networks, for reduced barriers in digital trade (e.g., elimination of customs duties on digital products), and for non-discriminatory treatment of and by state-owned enterprises (SOEs).<sup>6</sup> The U.S. has a strong interest, in particular, in reducing the role of SOEs in Asian economies.

As for the U.S. government, Congress would likely be able to pass a Taiwan FTA far more quickly than it would a Japan FTA. A U.S.-Taiwan FTA would generate no major distortions to the U.S. economy. There are no big disputes over political hot button issues such as automobiles. There is not a surplus of labor in Taiwan. In short, if made a priority, the United States and Taiwan could complete a free trade agreement in relatively short order, a move that would demonstrate that Washington is serious about its economic vision for the Indo-Pacific and would provide goalposts for other countries with an interest in closer trade relations with the United States, including Vietnam, the Philippines, and even Japan.

In pursuit of its vision for a “free and open” Indo-Pacific, it would be wise for the United States to enlist in its effort countries that are, themselves, already free and open. Taiwan should be considered a crucial partner in the Trump administration’s strategy. A free trade agreement would bring that partnership to new heights.

## **Key Issues**

This paper primarily aims to describe the strategic rationale for a U.S.-Taiwan FTA. That being said, there are a number of key issues that will need to be addressed before or during trade negotiations if those negotiations are to be successful. If progress on these items is not possible, the strategic argument for an FTA will be insufficient to move policymakers and legislators in Washington.

## *Agriculture*

As noted, Taiwan is an important agricultural market for the United States. In 2016, Taiwan accounted for \$3.2 billion of U.S. agricultural exports. That number, however, should be higher. In the early 2000s, Taiwan erected barriers to U.S. beef and pork imports due to concerns over Bovine Spongiform Encephalopathy (BSE, or mad cow disease) in the former, and the use of ractopamine by both beef and pork producers.

In recent years, barriers to U.S. beef imports have been reduced—the outright ban on beef imports (due to BSE) was lifted, a maximum residue level for ractopamine in beef was put in place, and Taiwan once again began allowing imports of bone-in beef. Since 2012, the United States has been Taiwan’s number one supplier of beef. Even so, continued barriers to the free import of U.S. beef products have unfairly limited American exports.

Taiwan’s continuing ban on pork treated with ractopamine is a larger problem for the United States, as it has, without reasonable cause, denied American pork producers access to a potentially lucrative market. That being said, this dispute may be easier to resolve than it once was. Slowly but surely, the U.S. pork industry has been moving away from the use of ractopamine as both foreign and domestic demand for ractopamine-free pork has grown. In 2012 and 2013, Smithfield Foods began processing only ractopamine-free pork at two of its facilities, accounting for 10 percent of all U.S. pork.<sup>7</sup> Smithfield continued reducing its reliance on ractopamine in the following years. These changes were largely driven by a need to maintain access to the Chinese market, in which ractopamine use is banned (also of note: Smithfield was purchased by a Chinese company in 2013<sup>8</sup>). In 2016, Tyson likewise introduced products from pigs raised without antibiotics and hormones. Other large companies have acquired smaller outfits that produce ractopamine-free pork.<sup>9</sup> The bottom line is that the ban on ractopamine-treated pork products is not as damaging to the U.S. pork industry as it once was, as industry has adjusted to shifts in domestic demand as well as Chinese and European bans on ractopamine-treated products. This suggests a resolution may be easier to reach today than it would have been earlier in the decade.

A key sticking point on beef and pork for American and Taiwanese negotiators has been whether barriers to imports would be addressed prior to, or as part of, free trade negotiations. The American position has long been that Taiwan must drop the barriers before opening negotiations, as those barriers were not erected based on science or reason, but based on popular passion and a desire to protect Taiwan’s pork industry from overseas competition. American trade negotiators believe the starting point for negotiations should be the status quo ante—they are opposed to making concessions in return for barriers that never should have been erected in the first place. Taiwan’s negotiators, however, object to unilaterally dropping the politically popular barriers to beef and pork imports without securing concurrent deliverables to present to voters. It may be the

case that these barriers should never have been erected, but domestic political realities in Taiwan today cannot be denied.

How to square this circle? If the United States continues to insist on a return to the status quo ante before opening negotiations on a bilateral FTA, Taiwan should accept the logic of the position, while noting that Taipei has its own concerns over recently imposed American trade barriers. Over the past year, Taiwan has been strongly lobbying for an exemption to the Trump administration's section 232 tariffs on steel and aluminum imports, appeals that the administration has repeatedly denied. Taipei has already launched anti-dumping and anti-subsidy investigations into Chinese steel products sold in Taiwan, in order to ensure that the island cannot be used as a transshipment point for such products bound ultimately for the United States. More strident measures to avoid such transshipment would pave the way for a deal allowing Taiwan and Washington to launch trade negotiations. Taiwan should drop its barriers to U.S. pork and beef imports. Doing so would win over the United States Trade Representative (USTR), and thus ensure that trade negotiations would proceed smoothly; absent such a move, negotiations will undoubtedly be painful and perhaps unsuccessful. At the same time, the United States should announce that it very much wants a completed FTA, and that successful negotiations would unequivocally end section 232 tariffs.

### *Intellectual Property*

Taiwan has done a commendable job enhancing intellectual property (IP) protections over the past decade. Those improvements led the U.S. Trade Representative to remove Taiwan from the Special 301 Watch List in 2009.<sup>10</sup> There is more work to be done, however, and this issue area remains a priority for the United States. IP protection is of particular importance in the U.S.-Taiwan economic relationship due to the robust trade in sectors such as technology and biomedical devices. High-profile incidences of IP theft, as in the recent Micron/United Microelectronics Corporation/Fujian Jinhua Integrated Circuit case, have further raised concerns.<sup>11</sup>

According to the State Department's 2018 Investment Climate Statement for Taiwan:

*The United States continues to monitor a number of [Intellectual Property Rights] IPR issues in Taiwan, including online piracy of copyrighted materials, illegal textbook copying on university campuses, end-user piracy of software, satellite signal theft, corporate trade secret theft, and weak pharmaceutical patent protections. The importation and transshipment of counterfeit products, mainly from the PRC, is also a problem.*<sup>12</sup>

Taiwan has been working on legislative solutions to a number of priority areas highlighted by the State Department, but a key shortcoming remains when it comes to enforcement. For example, the American Chamber of Commerce in Taiwan recommends that the government “implement measures to better control the importation of counterfeit and infringing goods by mail, express courier, and express mail,” and notes that IPR infringement cases have been significantly declining in number because “IPR enforcement is not being properly prioritized.” The Chamber notes that relevant investigative units must be sufficiently staffed and sufficiently funded in order to better “facilitate IPR criminal investigations.”<sup>13</sup>

Stronger IP protection should be a priority for Taiwan, not just for its American trade partner. As the American Chamber of Commerce put it in its annual white paper, “several major shortcomings need urgent attention in order to keep Taiwan from falling behind the global standard.” Addressing those shortcomings can help Taiwan “to keep its competitive edge, open up new possibilities for economic growth, and encourage the kinds of innovation that will be crucial for Taiwan’s economy in the coming decades.”<sup>14</sup> Taiwan’s government should also consider the feasibility of shifting from voluntary to mandatory “follow the money” measures in order to combat IP infringements.

Some of the required measures may be politically difficult for Taiwan to enact. Consider that, in 2017, a proposed Copyright Act amendment, which would have provided a “legal remedy for copyright infringement from offshore websites,” failed due to netizen protests asserting that freedom of speech and “freedom of information” would be inhibited by changes to the law.<sup>15</sup> Such reforms, however, may be easier for Taipei to carry out in the context of free trade negotiations with the United States. Moreover, given that Washington and Taipei’s interests are broadly aligned when it comes to IP, American negotiators should feel confident that their concerns can be addressed.

### *Finance/Capital Markets*

Writing with colleagues in 2012, we noted that business leaders in the United States and Taiwan found that, “given the wealth and sophistication of Taiwan’s economy, it was more difficult than one might have expected to raise money in Taiwan.”<sup>16</sup> This was due to a variety of identified problems, including a lack of competition in the financial system, a banking sector that operates on too informal a basis, and limited options for raising capital outside banks. Several years later, the financial sector continues to fall short of expectations for an advanced economy like Taiwan’s. In their annual white paper, the American Chamber of Commerce noted the flight of Taiwanese talent “to pursue opportunities in other financial markets that are much more liberal and internationalized than Taiwan’s,” arguing that “the only way to strengthen Taiwan’s international competitiveness in capital markets is to adopt practices that are fully in line with international standards.”<sup>17</sup>

These are, by and large, issues that Taiwan should address unilaterally if it seeks to foster an attractive business environment for multinationals. There are, however, two sectors—banking and private equity (PE)—in which the United States has a particular interest in seeing barriers reduced. Over the past few years, Taiwan has opened itself to more operations from foreign banks, but those banks continue to face limits on their activities. Restrictions on offshore product development and sales and regulations regarding what kind of clients foreign banks may serve should be relaxed, if not dropped altogether.

Secondly, for many years, Taiwan maintained an unofficial, if *de facto*, ban on foreign private equity funds investing on the island. That changed in 2017, when Taiwan’s Financial Supervisory Commission (FSC) announced that, per *Asia Asset Management*, “mutual fund managers in Taiwan are now allowed to set up onshore vehicles for PE investments.”<sup>18</sup> Even so, limitations remained as “PE funds are still barred from being marketed publicly.”<sup>19</sup> The greater problem for PE, however, is one of clarity of regulations and transparency in the regulatory process. Assurances from the FSC and from ministry officials that foreign PE is welcome are useful but insufficient. To successfully advance U.S.-Taiwan economic relations, Taiwan should be willing to match its commitment to openness with a commitment to reform its regulations and regulatory processes.

Taiwan’s political leadership will need to address the conservatism of its financial bureaucracy to effectuate a change. Taiwan has not enacted a major set of institutional reforms in a very long time. For the United States and Taiwan, a sophisticated financial market in Taiwan not only will produce more highly productive Taiwan companies and greater returns for U.S. investors, but will also better position Taiwan as a joint venture platform for entry into Southeast Asia. Taiwanese businesses already have deep networks in markets that American companies want to penetrate. Better rules in alternative asset class investments will open the door to U.S.-Taiwan joint venture partnering in third party countries. With a more open and flexible financial system, U.S. businesses and investment firms will take a closer look at their Taiwan counterparts for third party investment in markets where Taiwan already has the advantage.

### **Opportunities for Cooperation**

The three issues addressed above are all areas of concern for the United States—areas that Taiwan would need to, and likely be able to, adequately address in the context of trade negotiations. There are three additional areas that provide opportunities for closer bilateral cooperation—importantly, such cooperation could give greater impetus for free trade negotiations and advance the Trump administration’s Indo-Pacific strategy. Much of this cooperation would be premised upon Taiwan establishing first-in-class security assurance and secrecy laws. A potential FTA could be the incentive for Taiwan to finally do so.

*Defense-Industrial Cooperation & Ancillary Agreements*

The opportunity for close defense-industrial cooperation between the United States and Taiwan is particularly promising at this moment in time. Taiwan has made some strides in developing its indigenous defense industry, though it should not exaggerate the upside potential, given a non-existent international market. Taiwan now has an exceptional cruise missile program, an impressive shipbuilding capability (well-developed for small surface vessels), produces its own tactical unmanned aerial vehicles, and is reinvesting in its capacity to design, develop, and field manned military aircraft. Taiwan is also home to some of the world's best hackers. As the cyber realm becomes an ever more important domain for modern warfare, Taiwan's national-security-oriented technology companies are sure to be doing crucial work developing tools for defense and offense. Most important for U.S.-Taiwan defense industrial cooperation, however, is its information and communications technology (ICT) industry, which can develop critical components for American defense contractors and reaffirm trusted foundry programs.

The Trump administration has yet to make a major sale of new defense articles to Taiwan, but it does appear to be returning to regular arms sales, marking a significant development in relations.<sup>20</sup> In the spring of 2018, the administration approved American industrial participation in Taiwan's submarine program, which should see members of both countries' defense industries working hand-in-hand on a difficult, years-long program.<sup>21</sup> In short, the Trump administration has thus far shown itself well disposed to a closer security relationship and, as a result, closer ties between defense industries.

There are two areas in particular where defense-industrial cooperation may be especially beneficial for both Taiwan and the United States: (1) cyber and (2) command and control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR).

Cyber

Perhaps no other country faces the level of sustained cyber assault that Taiwan does on a daily basis. Taiwan is the number-one target for military- and government-affiliated hackers intent on stealing information, disrupting networks, and sowing discord. The United States, of course, faces a similar challenge, but it is Taiwan that is on the "front line" of the ongoing conflict in the cyber domain. The U.S. government and U.S. industry undoubtedly have much to learn from their Taiwan counterparts. In this realm, Taiwan talent is top-notch. The United States, for its part, is home to Silicon Valley and, more specifically, to some of the world's leading cyber security companies. Close collaboration should be a no-brainer.

American and Taiwanese defense (and defense industry) networks are prime focuses for Chinese hackers. They seek to pilfer weapons blueprints and operational plans, to monitor secure communications, and to identify vulnerabilities that could be exploited during a crisis. Collaboration would assist both sides, particularly the United States, in remaining aware of—and hopefully ahead of—new and emerging cyber threats. It would likewise permit faster development of tools for both offense and defense. On the whole, bringing together American resources and Taiwanese talent would help ensure networks in both places remain secure and that both have cutting-edge tools of their own to go on offense when necessary.

### C4ISR

One of the greatest challenges to the U.S. military's ability to operate in the Western Pacific is China's employment of anti-access/area denial (A2/AD) capabilities. These capabilities threaten ships at sea, planes in the air, and even satellites in space in order to contest American access to waters and skies it has long dominated. In the event of a conflict, besides sinking warships and downing combat aircraft, Chinese forces will seek to essentially "blind" and "deafen" U.S. forces by degrading their ability to conduct reconnaissance and to communicate with each other and with allied units.

For understandable reasons, China's developing A2/AD capabilities have caused much consternation in the United States. As American planners focus on countering these capabilities, it is easy to forget that Asian partners like Taiwan live within China's A2/AD envelope—24 hours a day, seven days a week. That experience, and Taiwan's urgent need to manage the threat, should provide impetus for cooperation between American and Taiwan defense industries. Taiwan's location, moreover, makes it an optimal testing ground for innovative approaches to countering or negating A2/AD threats.

Such cooperation would be predicated on Taiwan passing very strong security clearance and assurance laws, and significantly expanding counter-espionage efforts; Taiwan should be a very dangerous place for Chinese intelligence operatives to work. The "Five Eyes" standards can be a template. To be sure, this is ancillary to an FTA but the passage of comprehensive secrecy laws can be appendices to the main agreement.

### *5G/ICT*

The U.S. innovation ecosystem that has enabled the country's technological leadership has thrived in a free and open global economic order. Unfortunately for the United States and its free trading partners—Taiwan foremost among them—Chinese companies, backed by their

government and the Chinese Communist Party, are distorting international rules and markets to win the race to develop one of the next major enablers of innovation: 5<sup>th</sup> generation mobile networks, or “5G.” Chinese companies like Huawei are trying to bankrupt telecommunication equipment companies Nokia and Ericsson. They are trying to undermine the business models of high-research and development (R&D) chipset companies in the United States through patent, licensing, and IP standards manipulations. They are also expanding their own global share of 5G-related patents, and increasing their influence in global standard-setting bodies. In 2017, a U.S. Federal Communications Commission commissioner raised the alarm about Chinese manipulation of such bodies, noting “reports that some authoritarian governments are focusing their attention on leadership positions at these organizations so that they can promote their agendas and dictate the future design of not only wireless networks, but also the internet.”<sup>22</sup>

Chinese success in setting 5G standards, manufacturing mobile phone and mobile network equipment, and increasing chipset production could result in much of the next innovation ecosystem moving to China; this, in turn, would mean the innovation ecosystem would abide by the arbitrary structures of Chinese technical standards in areas such as artificial intelligence, the internet of things (IOT), autonomous vehicles, and a host of promising healthcare technologies. In the case of such an eventuality, U.S. competitiveness in the high-tech arena would suffer. What’s more, China’s unfair behavior in the 5G race is not only an economic threat. China is already an active cyber thief, but if China wins the 5G competition, networks and telecommunications equipment that the United States uses for military and other national security purposes could rely, in part, on Chinese technology. Implications for Taiwan’s economic and national security would be similarly troubling.

Given Taiwan’s own role in 4G network supply chains, and companies’ significant operations on the island—such as Qualcomm’s—Taipei perhaps understands this challenge better than many of Washington’s partners. Indeed, the *Wall Street Journal* recently reported that the United States has mounted a global effort to dissuade countries from purchasing hardware from the likes of Huawei.<sup>23</sup> In Taiwan, the United States has a ready-made ally in tackling this challenge.

Together, the United States and Taiwan should convene a high-level 5G/IOT working group. Taiwan has a very strong hardware manufacturing and machinery industry, and is already testing IOT and creating security standards for IOT devices. Currently, the relevant Taiwan agencies have a relationship with the National Institute of Standards and Technology in the United States, but given the attention paid to these industries in Washington, and their relevance to questions of national security, bilateral engagement on 5G and IOT standards could be elevated to discussions with the Federal Communications Commission, National Security Council, and State Department. Taiwan could act as a test bed for 5G and IOT deployment. But an FTA with high digital economy standards would have to be in place for Taiwan and the United States to take

full advantage of that potential. The idea would be to set Asia's legal, policy, and regulatory standards through an FTA with Taiwan.

Finally, Washington and Taipei should seek to embed cooperation on 5G into the Trump administration's broader Indo-Pacific strategy. Denying Beijing a victory in the 5G race is not about cutting China out of this next-generation ICT infrastructure, but about ensuring that the infrastructure is open to all comers, and that it, in turn, contributes to a region that is free and open, as Secretary Pompeo described.

### *Energy*

In August 2018, Taiwan's CPC Corporation entered into a 25-year agreement with Cheniere Energy, the largest American exporter of liquid natural gas (LNG). Starting in 2021, CPC will import 2 million tons of LNG annually for a total value of roughly \$25 billion. With LNG expected to account for 50% of Taiwan's future energy mix (in 2025, up from 38% today), this agreement with Cheniere should mark just the start of a robust U.S.-Taiwan energy trade and investment relationship. CPC indirectly made that case in a statement put out upon the signing of the agreement:

*CPC Chairman Tai Chein remarks that the LNG industry sees Qatar, Australia and the USA as the coming three main pillars of the global LNG exporting [sic]. CPC has been importing substantial volumes of LNG each year from Qatar and Australia, so this [Sale and Purchase Agreement] represents not only a step up in the volume of LNG imported into Taiwan from North America but also a strengthening of the long-term cooperation between CPC and Cheniere, the key U.S. energy company involved in LNG projects. Most importantly, it helps to further achieve the diversification of LNG sources and stability of energy supply into the Taiwan market that are among CPC's key objectives.<sup>24</sup>*

Looking forward, the United States and Taiwan should seek ways to expand exports of U.S. LNG to the island, to welcome greater Taiwanese investment in American LNG production (CPC has a clear interest in doing so), and to open the door for U.S. investment in Taiwan's presently insufficient energy storage and transmission infrastructure.

### **Advancing the Free and Open Indo-Pacific**

The 2017 U.S. National Security Strategy (NSS) lists four "vital national interests," which shape the American approach to all regions. Those national interests are to:

- Protect the American people, the homeland, and the American way of life;
- Promote American prosperity;
- Preserve peace through strength; and

- Advance American influence.<sup>25</sup>

The bottom line is to make America more secure and more prosperous. A “free and open” Indo-Pacific would do so by expanding what the NSS calls “fair and reciprocal trade”; strengthening “rule of law”; ensuring “freedom of the seas,” “unimpeded commerce,” and “the peaceful resolution of disputes”; denuclearizing North Korea; expanding “free markets”; developing “high-quality infrastructure”; and deterring aggression.<sup>26</sup>

To achieve these goals, the NSS lays out what the Trump administration calls an “America First” national security strategy, but is arguably an “Allies First” approach to Asia. That’s not to say that the NSS puts allies’ interests ahead of America’s, but that allies play a central role in achieving American ends. As the NSS puts it:

*We will redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new partners that share respect for sovereignty, fair and reciprocal trade, and the rule of law... We will work with partners to build a network of states dedicated to free markets and protected from forces that would subvert their sovereignty... We will strengthen our long-standing military relationships and encourage the development of a strong defense network with our allies and partners.*<sup>27</sup>

These words could easily have been written specifically about Taiwan. Indeed, Taiwan should be a key focus of the administration’s Asia strategy. Put simply, there will be no “free and open” Indo-Pacific if Taiwan is not made a key cog in the American approach, and instead is left to fend off Chinese depredations on its own. Moreover, other U.S. allies will question the effectiveness of a “free and open” Indo-Pacific strategy that fails to ensure the continued freedom and openness of a republic already so characterized.

Deepening U.S.-Taiwan ties, however, would not simply be a defensive move in the Indo-Pacific strategy. Rather, doing so would enable the strategy’s ultimate success. Speaking in Taipei in March 2018, Deputy Assistant Secretary of State Alex Wong described the bilateral relationship as built on three certainties:

*We can be certain that Taiwan’s democracy and resulting development are an example for the entire Indo-Pacific region. We can be certain that the United States, Taiwan, and all of our other like-minded partners can work together to strengthen the rules-based fabric of this region. And we can be certain that the United States’ commitment to the Taiwan people, to their security, to their democracy, has never been stronger.*<sup>28</sup>

Wong went on to link Taiwan’s democratic governance with its economic success:

*Dynamic, broad-based and sustainable economic growth can never hinge on the whim of a dictator. It can only arise in the stable and certain conditions created under a constitutional government. Taiwan is a clear example of this truth, and Taiwan is an inspiration to the rest of the Indo-Pacific.*<sup>29</sup>

It behooves Washington and Taipei, however, to ensure that Taiwan is more than a passive inspiration. Instead, the two should seek to not only model ideal policies, but to set standards that others must meet in order to flourish. A bilateral FTA would do so. Not only would it have enormous signaling value vis-à-vis Beijing, and deepen U.S.-Taiwan economic ties in such a way as to make Taiwan's *de facto* independence materially more important to the United States, but it would also serve as a concrete conceptualization of America's economic vision for the Indo-Pacific region. This paper does not argue that an FTA would change the terms of trade or create a massive export market for the United States. Rather, it could set the template for others in Asia, —particularly on legal, regulatory, and cyber standards— for the industries of the future. It would also, to be sure, increase exports to Taiwan in certain sectors, and stabilize and create new opportunities for third party market penetration.

In concluding an FTA with Taiwan, the Trump administration would counter the perception among some in Asia that it is uninterested in free trade and, importantly, would set the conditions others would have to meet should they seek to benefit from free trade with the United States, as well. A U.S.-Taiwan FTA, in effect, would be an early building block—if not the cornerstone— of a “free and open” Indo-Pacific economic order. The United States needs an agreement with a high-tech economy in Asia that creates the template for the future laws, regulations, and policies governing innovation-based economies.

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**Endnotes**

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