DISCLAIMER

Electronic versions of the exhibits in these minutes may not be complete.

This information is supplied as an informational service only and should not be relied upon as an official record.

Original exhibits are on file at the Legislative Counsel Bureau Research Library in Carson City.

Contact the Library at (775) 684-6827 or library@lcb.state.nv.us.

Supporting Proposed Free Trade Agreement between Taiwan and the United States

The ROC on Taiwan continues to promote the idea of a free trade agreement between Taiwan and the United States. The idea was proposed by Senator Max Baucus (D-MT) on November 6, 2001, and Taiwan's chief representative in the United States, C. J. (Chien-Jen) Chen presented testimony in support of such an agreement at a public hearing held by the U.S. International Trade Commission on May 13 ,2002

A New Era Partnership–A Proposed Free Trade Agreement Between Taiwan and the United States

Deepening an Important Economic and Trade Relationship Taiwan and the United States enjoy one of the most important economic and strategic international relationships. Together, Taiwan and the United States promote a shared faith in and respect for freedom, democracy, and market principles. For the past half-century, Taiwan and the United States have worked hand-in-hand to preserve peace and stability within the Pacific Rim and to help improve the lives of their citizens and people around the world.

Reflecting this strong partnership, trade between the two countries has increased steadily in the past forty years or so, with marked growth over the past decade. The United States is now Taiwan's second largest source of imports (after Japan), and Taiwan is the eighth-largest exporter to the United States. In turn, Taiwan is the tenth-largest U.S. export market, buying more U.S. merchandise than Brazil, Belgium, Australia or Italy. In 2001, U.S. exports to Taiwan totaled US$18.2 billion. In the agricultural sector, Taiwan is the fifth-largest U.S. export market, ranking as one of the top three destinations for U.S. peaches, plums, celery, apples, cherries, broccoli, corn, feed grains, and bovine hides.

One of the best ways to forge even closer ties between the two countries

ASSEMBLY ELECTIONS, PROCEDURES, & ETHICS
DATE: 3-11-03 ROOM: 3138 EXHIBIT H
SUBMITTED BY: David Chien

and to nurture continued and sustainable economic growth would be to negotiate a Taiwan-U.S. Free Trade Agreement (TUFTA). The benefits of such an agreement for U.S. businesses, farmers, and workers, in particular, would be quite extensive. Despite its small geographic size, Taiwan's population of 23 million inhabitants (roughly equal to that of Australia and New Zealand combined) has transformed Taiwan into a major, modern economy. Taiwan is now one of the most rapidly industrializing nations in the world, with per capita income US$12,756 higher than some members of the Organization for Economic and Cooperation Development (OECD), notably South Korea, Greece and Portugal. Many U.S. companies, such as IBM, Microsoft, Cisco, AT&T, Texas Instruments, Intel, AMOCO Chemical, Dupont, Aetna Life Insurance, Citibank, and Applied Materials, are well established in Taiwan. Building on these already firm roots, U.S. businesses will be presented with new opportunities in the expanding Taiwanese market if a TUFTA is successfully negotiated.

Mutual Dedication to Trade Liberalization

In recent years, both Taiwan and the United States have taken important steps to advance free trade. In January 2002, Taiwan joined the World Trade Organization (WTO), where it has worked with the United States, based on the Doha Development Agenda adopted at the 4th WTO Ministerial Conference in Doha, Qatar, to launch a new round of multilateral trade negotiations. In these talks and in other fora, such as the Asia-Pacific Economic Cooperation Forum (APEC), Taiwan and the United States have demonstrated their mutual dedication to trade liberalization and the furtherance of a global market-based economy based on principles of transparency, predictability, and fair competition. A TUFTA would expand upon the accomplishments of the WTO and APEC and might even serve as a model for future market liberalization efforts.

A High Level of Mutual Investment

The economic and trade partnership between Taiwan and the United States is reflected not only in the large volume of two-way trade described above, but also in the high level of U.S. investment in Taiwan and increasingly in Taiwan's investment in the United States. In 2001, American firms invested about US$940 million in Taiwan. Taiwanese firms in turn invested US$1.1billion in the United States. Streamlined foreign investment procedures developed in a TUFTA would encourage U.S. and Taiwanese companies to increase their investments in the two countries, creating new business opportunities and jobs, and forging closer ties between Taiwanese and U.S. firms.

Innovation-Driven Partnership in the Information Technology Sector

In the past fifty years, industrial cooperation between Taiwan and the United States has evolved from U.S. businesses seeking only to secure low-cost inputs and labor to a more balanced, innovation-driven partnership. For example, in the information technology sector, Taiwan is now the leading Asian purchasing source of U.S. computers and semiconductor products. Taiwan has come into its own as a driving force and an integral player in this global industry, bringing unique strength to complement its U.S. and Asian partners.

In the same way, there is potential to duplicate this partnership in other related areas between the United States and Taiwan. A bilateral free trade agreement would stimulate joint development of advanced technology and new high-tech applications, and promote new cooperative ventures, such as mutual recognition agreements on electronic and electrical equipment and other areas. In this way, a TUFTA could reduce subtle as well as formal trade barriers, enable Taiwanese and U.S. businesses to work collaboratively, and thereby make Taiwanese and U.S. businesses more efficient.

Taiwan: Gateway for U.S. Products and Services in the Asia-Pacific Region

A free trade agreement would be a catalyst for the establishment of Taiwan as a gateway to Asia for U.S. firms. Taiwan's unique culture, economy, and geographical location make it well-suited to serve as a springboard for U.S. economic expansion in the Asia-Pacific region. The World Economic Forum's 2001 Global Competitiveness Report ranks Taiwan the third among the top 21 technology-driven economies in the world in terms of innovation, after only Canada and the United States. Taiwan is located within easy reach of China, Japan, and Southeast Asia, and it offers a well-educated and well-trained work force, a sound infrastructure, and well-established investment networks. Taiwan is already an ideal place for U.S. firms to concentrate their Asian operations; the free trade principles established in a TUFTA would only improve the return U.S. businesses receive on such investments.

Recent FTA Developments in the United States and Taiwan

Negotiation of a TUFTA would be an appropriate component of the U.S. trade liberalization strategy, as it would eliminate tariffs, quotas, and other trade barriers with one of the largest U.S. trading partners. It also would further U.S. efforts to increase trade within the Pacific Rim through its talks with Chile and Singapore and possible future negotiations with Australia and New Zealand, consistent with the goal established by the APEC Bogar Declaration to create a free trade zone in the region among industrialized countries by 2010.

Efforts to initiate TUFTA negotiations are underway. The U.S. Congress has taken an interest in the creation of a TUFTA. Senator Max Baucus, Chairman of the Senate Finance Committee, has introduced a bill entitled the "United States-Taiwan Free Trade Agreement Act of 2001." The bill would authorize the President to negotiate a free trade agreement with Taiwan and provide for consideration of the completed agreement by the Congress under "fast track" procedures. The USITC, in a notice issued in the Federal Register on February 11, 2002, officially announced the launch of its investigation of the likely economic impact of a Free Trade Agreement between the United States and Taiwan. In its investigation, the USITC will estimate the effects of the elimination of barriers to U.S.-Taiwan trade and will also conduct static and dynamic analyses of these effects, based on the most current trade data available. They will examine the tariff and non-tariff barriers affecting the flow of trade between the two countries, and examine how their removal will affect the overall economic relationship.

Similar steps are underway in Taiwan. At an interagency meeting held in early October 2001 within the Ministry of Economic Affairs, a consensus was reached to list the United States as one of the priority trading partners with which Taiwan would seek to negotiate a free trade agreement following Taiwan's accession to the WTO. The Executive Yuan approved the proposed plan in early November 2001. Mirroring the ITC process, Taiwan plans to commission an independent study of the economic impact of a TUFTA on Taiwan's economy.

Perspective

The U.S. Trade Representative Robert Zoellick has expressed that the United States will work closely with our APEC partners to promote Asia-Pacific integration, particularly through free trade. A staunch supporter of ongoing global liberalization, Taiwan, due to its pivotal position in Asia should be considered as an indispensable trading partner with whom the United States accelerates its efforts to reach free trade agreements and deepen economic integration across the Pacific. Taiwan and the United States have worked closely together on economic issues for years. They have engaged in consultations under their Trade and Investment Framework Agreement, and they have held annual dialogues on trade and economic issues at the vice-ministerial level. It is now time to broaden the scope of U.S.-Taiwan bilateral trade and investment cooperation and to move toward an even closer economic partnership through the establishment of a bilateral free trade agreement. Such an agreement would promote economic opportunities on both sides of the Pacific, increasing the prosperity of both countries and enhancing the already strong and enduring Taiwan-U.S. trade relationship.

Preparatory Work before Starting FTA Negotiations

Taiwan and the United States should resume trade consultations under the existing TIFA framework, which has been suspended since 1998.

Through the TIFA or the annual vice minister-level dialogue, both countries should discuss the possibility of negotiating a free trade agreement and jointly study its benefits. The two countries should agree that the scope and framework of any such agreement must comply fully with WTO requirements.

Both sides should agree to examine the USITC fact-finding study, due by October 17, 2002, of the overall economic effects of a Taiwan-U.S. FTA on the U.S. economy.

In parallel with the currently ongoing USITC study, Taiwan's relevant authorities will commission an analytical report to be prepared by a think tank or private academic institution. This report will examine the estimated effects of eliminating all quantitative tariff and non-tariff trade barriers on trade in goods and services between the two countries. The study also will examine the effects of a free trade agreement in terms of the gross domestic product of each country and the agreement's impact on relevant sectors in the two economies.

Business associations, individual business interests and other groups in both countries should be consulted in conjunction with the negotiations, and the comments of interested parties should be given careful consideration.

Taiwan and the United States should agree to several basic principles as they initiate negotiations. These would emphasize the objective of negotiating a comprehensive free trade agreement covering liberalization in essentially all areas of trade and investment, as well as the need to adhere to transparency in all aspects of the agreement's implementation.

BENEFITS TO THE UNITED STATES OF A TAIWAN-U.S. FREE TRADE AGREEMENT (TUFTA)

Policy Objectives:

Strengthening ties with a long-time U.S. strategic and economic ally.

Promoting peace and stability in the Pacific Rim.

Increasing bilateral trade and investment.

Adding momentum to U.S. free trade initiatives.

Fulfilling the APEC Bogor Declaration's objective of free trade among industrialized APEC countries by 2010.

Expected TUFTA Benefits

Reducing or eliminating barriers on essentially all Taiwan-U.S. trade in goods, including agricultural products.

Reducing or eliminating market barriers for service providers.

Streamlining regulatory burdens and bureaucratic red tape.

Allowing U.S. companies to establish business operations in Taiwan with fewer obstacles.

Establishing a mutual recognition mechanism for efficient testing and certification of electronic and electrical equipment and other products.

Enhancing Taiwan's role as a "gateway" for U.S. products and services in the Asia-Pacific region.

Allowing closer Taiwan-U.S. partnering, particularly in high technology research and development.

U.S.-Taiwan Trade and Investment Facts - Year 2001

Total Taiwan-U.S. trade in goods: $51.5 billion.

U.S. exports of goods to Taiwan: $18.2 billion.

Leading U.S. exports to Taiwan: electrical machinery, machinery, optical instruments and parts, aircraft, aircraft parts, organic chemicals, corn, and soybeans.

Taiwan is the eighth-largest U.S. trading partner; tenth-largest U.S. export market; and fifth-largest U.S. export market for agricultural goods.

U.S. private investment in Taiwan: $940 million.

Taiwanese private investment in United States: $1.1 billion.

Total U.S. investment in Taiwan, 1952 - 2001: $11.7 billion.

The United States is Taiwan's largest foreign private investor.

United States Embassy Tokyo, Japan

U.S.-Taiwan Free Trade Agreement Would Have Limited Impact

U.S. International Trade Commission Oct. 21 report

A report released October 21 by the U.S. International Trade Commission (ITC) concludes that a free trade arrangement between the United States and Taiwan would likely have a "very small" impact on the overall U.S. economy, but trade flows for certain trade sectors would probably "increase substantially."

"In percentage terms, the U.S. sectors likely to benefit the most would be motor vehicles, rice, fish, and other foods. These sectors likely would experience increases in exports to Taiwan of more than 100 percent," the report predicts.

With regard to service industries, the report calculates that the removal of certain nontariff measures in Taiwan would mean "U.S. asset management firms and banks could expect to increase sales in Taiwan ... (and) might also affect U.S.-Taiwan trade or investment in textiles and apparel, vehicles, and education."

The complete report, entitled "U.S.-Taiwan FTA: Likely Economic Impact of a Free Trade Agreement Between the United States and Taiwan," is available on the U.S. ITC website at ftp://ftp.usitc.gov/pub/reports/studies/PUB3548.PDF

Following is the text of the executive summary of the ITC report:

U.S.-Taiwan FTA: Likely Economic Impact of a Free Trade Agreement Between the United States and Taiwan

October 2002

Executive summary:

Scope of the Study

This report assesses the economic impact of establishing a Free Trade Agreement (FTA) between the United States and Taiwan. The report includes an overview of the Taiwan economy, an overview of the current economic relationship between the United States and Taiwan, a discussion of important industry sectors, an inventory of the trade barriers between the United States and Taiwan, estimates of the economic effects of eliminating quantifiable trade barriers, and an assessment of the effects of removing nonquantifiable trade barriers. It is estimated that both economies likely would experience relatively small economywide effects from a FTA. However, some sectoral trade flows would increase substantially in percentage terms. In motor vehicles, rice, fish, and other foods sectors, U.S. exports to Taiwan would increase by more than 100 percent. Similarly, U.S. imports from Taiwan for dairy, textiles, wearing apparel, leather, and certain crop commodities also would rise by more than 100 percent. In dollar terms, these changes are significantly smaller because in many of the sectors, current trade is small or near zero, so the percent change is being applied to a small base.

Overview of the Taiwan Economy

The Taiwan economy is only about 3 percent of the size of the U.S. economy, but has experienced strong, steady growth of about 8.2 percent annually since 1961. This sustained growth results in part from Taiwan's strong export promotion strategies, which were implemented gradually during the decades of the 1970s and 1980s. These export strategies, which focused on reducing barriers to trade and investment, resulted in large trade surpluses, a steady increase in Taiwan's foreign exchange reserves, stable prices, and full employment.

Over the decades, Taiwan's economy has gone through several transformations- from an agricultural base, to a manufacturing center of labor-intensive products, and finally to a major supplier of high-technology goods. The driver of Taiwan's economic growth is manufacturing, which was valued at $259 billion in 1999, and provided 98.6 percent of its exports in 2000. Electrical and electronic machinery account for the largest share of Taiwan's manufacturing, totaling $101 billion of all manufacturing value in 1999. Because this subsector is growing so rapidly, Taiwan has become the world's third largest producer of information technology hardware, and ranks first in the production of notebook computers, monitors, motherboards, and scanners. Taiwan also exports significant volumes of textile products and appliances.

Taiwan also relies on services to provide a large share of its gross domestic product (GDP). In 2001, services accounted for 67.2 percent of Taiwan GDP, and the largest share of this sector (32.7 percent) consists of finance, insurance and business services. In 2000, Taiwan agricultural production totaled $165 million, accounting for approximately 2 percent of GDP.

Taiwan's major trading partners include mainland China, the United States, Hong Kong, Japan, the European Union, and other economies of Southeast Asia. With the exception of Japan, Taiwan maintains a trade surplus with its major trading partners, and the largest surplus is with the United States.

The top destinations for Taiwan foreign investment include mainland China, the United States, Central America, and countries within the Association of Southeast Asian Nations (ASEAN). The largest share of Taiwan investment in mainland China - 45.3 percent - is in electronics and appliances.

Taiwan lifted important investment restrictions in 1997, both on the operation of its own firms abroad and on foreign firms operating in Taiwan. In mid 1997, Taiwan began permitting its firms to issue shares abroad and lifted restrictions that prevented foreign firms from issuing shares in Taiwan. However, Taiwan continues to maintain a range of formal and informal restrictions on capital flows into and away from the island.

Taiwan imports significant amounts of intermediate products in order to maintain its sizeable export growth. From Japan, Taiwan imports large quantities of machinery and equipment, and from the United States, it imports significant volumes of industrial raw materials and other industrial inputs.

U.S.-Taiwan Economic Relationship

The United States is an important supplier of electrical machinery and appliances, transport equipment, scientific instruments, and chemical products to Taiwan. Additionally, the United States is a net exporter of agricultural products to Taiwan, and in 2001 Taiwan was the fifth largest market for these U.S. products, in terms of value. Taiwan, in turn, supplies many manufactured goods - particularly machinery - to the United States. In 2001 the largest of these U.S. imports from Taiwan included office and data processing machines, electrical machinery and appliances, telecommunications and recording equipment, apparel and clothing accessories, as well as other manufactured metal goods and road vehicles.

Although overall bilateral trade volumes between the two economies decreased somewhat from 2000 to 2001, Taiwan was the eighth largest U.S. trading partner in 2001, ranking 10th in terms of U.S. exports and eighth in terms of U.S. imports. U.S. exports to Taiwan totaled $16.6 billion in 2001, down from $22.4 billion in 2000, and U.S. imports from Taiwan totaled $33.3 billion, down from $40.4 billion in 2000. The U.S. trade deficit with Taiwan was $16.6 billion in 2001.

The drop in U.S.-Taiwan trade volume from 2000 to 2001 in part reflects a longer, downward trend in agricultural trade between the two economies. The total value of U.S. agricultural exports to Taiwan fell by 31 percent between 1995 and 2001, decreasing from $3.3 billion in 1995 to $2.3 billion in 2001. The value of U.S. agricultural imports from Taiwan also fell during that period, from $600 million in 1995 to $542 million in 2001. U.S. agricultural exports to Taiwan consist primarily of bulk commodities like wheat, course grains, soybeans, and cotton. The United States imports a number of consumer-oriented agricultural products from Taiwan, such as snack foods, processed fruits and vegetables. The United States also imports fish and other seafood from Taiwan.

Most U.S. investment in Taiwan is concentrated in the manufacturing sector, especially in electronics and chemicals, but also flows into wholesale trade and finance, insurance, and real estate. U.S. net capital outflows to Taiwan totaled $1.15 billion in 2000, and by the end of 2000, total U.S. investment in Taiwan totaled $7.74 billion. Taiwan's investment in the United States also is concentrated in manufacturing (particularly chemicals and machinery), and in financial institutions, wholesale trade, and services. At the end of 2000, Taiwan's investment in the United States totaled $3.22 billion, and net capital outflows to the United States in 2000 were $186 million.

Principal U.S.-Taiwan Trade Barriers

The United States maintains a relatively low average tariff rate of 2.8 percent. However, a number of higher tariffs remain on selected products, including poultry products, citrus juice, textiles, apparel, and trucks.

In order to gain admission to the WTO on Jan. 1, 2002, Taiwan made major improvements in its trade and business climates. For example, Taiwan reduced its average nominal tariff from 8.2 percent before accession to the current 7.1 percent, and will lower it again to 4.2 percent by 2007. Despite this effort, substantial trade barriers continue to exist. Many of the remaining tariff barriers are in the agricultural sector, where the average nominal tariff rate is 15.2 percent, down from the preaccession rate of 20 percent. That rate is scheduled to drop to 12.9 percent by 2006.

In addition to tariffs in the agricultural sector, Taiwan also maintains tariff-rate quotas (TRQs) on several agricultural products, including poultry products, several fruits, some fish and sugar and has an absolute import quota on rice. Tariff-rate quotas also are maintained on small passenger cars. In 2002, Taiwan's TRQ on U.S. passenger car and light truck imports stood at 159,220 vehicles, which were assessed an in-quota tariff of 29 percent. By 2010, the quota will be raised to 684,617 vehicles, which will be assessed an in-quota tariff of 17.5 percent.

During the Uruguay Round, the United States scheduled TRQs for approximately 11 agricultural commodity areas. The United States also maintains certain quotas on textile and apparel.

In gaining accession to the WTO, Taiwan greatly improved its regulatory regime, but important nontariff barriers from Taiwain's regulatory regime remain. These include some limitations on foreign investment and unnecessarily burdensome standards, testing, labeling, and certification requirements. While foreign investment restrictions have been reduced in many industries, limits still remain in telecommunications, air transport, and independent power sectors. Insufficient intellectual property rights protection remains a problem. In fact, because of enforcement problems and pirating, Taiwan was moved, in April 2001, from the United States Trade Representative's Special 301 general watch list to the priority watch list.

U.S. trade remedy laws are among the concerns most frequently raised by Taiwan exporters to the United States. These exporters also contend that complexities in the U.S. regulatory system have resulted in additional costs and difficulties at the border. Taiwan authorities claim that certain customs regulations, particularly those applied to textiles and clothing, are overly complex and require unnecessary information.

Impact from Eliminating Trade Barriers

The U.S. economy likely would experience very small effects from the elimination of trade barriers under a U.S.-Taiwan FTA, but U.S. trade with Taiwan would increase. Commission analysis suggests that both total U.S. exports and imports would be 0.2 percent higher than levels expected in the absence of a trade agreement. In value terms, U.S. exports to Taiwan likely would rise from about $21.9 billion to $25.3 billion, a 16 percent increase, while U.S. imports from Taiwan would increase from $39 billion to $46 billion, an 18 percent increase.

In percentage terms, the U.S. sectors likely to benefit the most would be motor vehicles, rice, fish, and other foods. These sectors likely would experience increases in exports to Taiwan of more than 100 percent. On the other hand, U.S. imports from Taiwan for dairy, textiles, wearing apparel, leather, and certain crop commodities would rise by more than 100 percent. In dollar terms, these changes are significantly smaller because in many of the sectors, current trade is small or near zero, so the percent change is being applied to a small base. U.S. sectors experiencing the largest dollar increase in exports to Taiwan would include machinery and equipment ($868 million), motor vehicles and parts ($629 million), and foods ($520 million). U.S. sectors with the largest dollar increase in imports would include: textiles, wearing apparel and leather products ($3.3 billion), machinery and equipments ($866 million), metals and related products ($705 million), and electronic equipments ($610 million).

Overall, the removal of quantifiable barriers would have a negligible impact on U.S. production and gross domestic product (GDP), but would have a small impact on Taiwan production and GDP. Taiwan GDP could increase by 0.3 percent as a result of eliminating trade barriers under an FTA. The removal of certain nontariff measures would have additional effects on services. For example, U.S. asset management firms and banks could expect to increase sales in Taiwan if certain nontariff barriers were removed under an FTA. The removal of these barriers might also affect U.S.-Taiwan trade or investment in textiles and apparel, vehicles, and education.

Effects on Agriculture

One of Taiwan's economic disadvantages is its limited natural resource base. This limitation is one reason that the United States is able to export substantial amounts of raw material to the Taiwan economy, and it provides the United States with a comparative advantage under free-trade conditions in agriculture, since only about one-quarter of Taiwan's land area is cultivatable. In addition, over time Taiwan has deemphasized agricultural production and agriculture's share of GDP is shrinking. Since 1951, the share of agriculture in Taiwan's GDP has fallen from 32.3 percent to less than 1.9 percent in 2001.

Under an FTA with Taiwan, overall U.S. output of vegetables, fruits, and nuts are estimated to be about 0.3 percent higher in 2005. In terms of U.S. exports to Taiwan, the value of rice, fish, meats, vegetables, fruits, and nuts and other foods would increase by more than 50 percent.

U.S. imports of certain agricultural products from Taiwan also would increase. For example, since U.S. barriers to Taiwan dairy trade are high, the likely impact of an FTA would be an increase in imports of these products from Taiwan by 264 percent.

In addition to the simulation results, qualitative analysis of removing nontariff barriers to trade between the United States and Taiwan indicates that U.S. exports of rice to Taiwan likely would increase substantially if Taiwan's absolute import quota was removed.

Effects on the Textiles, Apparel, and Leather Products

A U.S.-Taiwan FTA would have a very slight, negative impact on the U.S. textiles, apparel, and leather sector but a larger, positive impact on the same sector in Taiwan. The U.S. textile, apparel, and leather sector could shrink by about 0.4 percent as a result of larger volumes of Taiwan imports. The Taiwan textile, apparel, and leather sector could grow by about 8.2 percent. In relative terms, the volume of textile, apparel, and leather imports to the United States from Taiwan could be 126 percent higher than in the absence of the FTA.
