

**U.S. HOUSE WAYS & MEANS COMMITTEE: HEARING ON THE FUTURE OF U.S.-  
TAIWAN TRADE**

September 14, 2022

**Coalition for a Prosperous America Written Testimony**

Submitted on October 4, 2022

The Coalition for a Prosperous America (CPA) thanks Chairman Neal, Ranking Member Brady, and Members of the Committee for holding this hearing to explore how the United States might advance its trade interests with Taiwan—a close, and vulnerable partner in need of American support. CPA is a bipartisan, nonprofit organization representing exclusively domestic manufacturers, producers, and workers across many sectors of the U.S. economy. Together, CPA and our members represent 4.1 million households across the country.

We appreciate the fervor of the members of this Committee and those who have testified in support of bolstering our strategic relationship with Taiwan. CPA stands firm in our opposition to a malign Chinese government and we support Taiwan’s need, and right, to defend itself from the Chinese Communist Party’s (CCP) aggression. Defunding China’s ability to wage war on Taiwan is essential, and we advocate for measures that do just that. We believe that Taiwan’s safety is best secured by a strong American industrial economy paired with strategic national security policies that limit China's access to American capital and fortify Taiwan's military defenses.

Despite our strong support for Taiwan and its people, we do not believe that a free trade agreement (FTA) is an appropriate policy option for the U.S. to undertake; it does not advance American interests, nor does it aid Taiwan’s democracy or strengthen its geopolitical position. In this testimony, we will briefly contend that an FTA is improper for three reasons:

- i. An FTA is ineffective as a tool of political-military strategy;
- ii. An FTA, and other trade deals, interfere with U.S. trade, economic, and industrial rebuilding strategy;
- iii. An FTA will not improve the defensive position of Taiwan nor will its nonexistence imperil Taiwan further or worsen the U.S.-Taiwan relationship. Rather, the focus should be on defense, diplomatic support, and other tools of foreign and defense policy.

## **Trade Must Serve Domestic Economic Strategy**

Expanded trade relations between nations is not in-and-of-itself foreign policy, and should not be confused as such. Rather, trade must serve domestic economic strategy first, and must constantly be subject to the primacy of national interests. A free trade agreement is not a tool of political-military strategy, in the same way a collective defense agreement or political union might be wielded as one. Widening avenues of commerce for private businesses in market economies to freely exchange goods is not a coherent strategy to address pressing national economic issues or bolster a trading partner's defense capabilities and national security posture.

Although there is scholarship supporting the notion that increased trade between two countries decreases the incidence of conflict between those countries, it is bewildering to think that a free trade agreement between any two countries would somehow deter a third country aggressor from engaging in armed conflict with either of the two parties. History is full of such examples, but Ukraine serves as the most recent reminder. Despite Ukraine's extensive trade with the European Union (EU), the United States (which maintains close bilateral trade and investment ties through the United States-Ukraine Trade and Investment Cooperation Agreement (TICA) signed in 2008), and China (Ukraine's largest imports trading partner), Russia made a political-military decision to invade. It would be a strained position to suggest that Ukraine's strong trading ties to other major powers were a deterring factor of any kind in Russia's invasion calculus. The support China lent to Russia in the lead-up to the invasion even further strains this line of reasoning, as China staked its interests in direct opposition to the EU and United States. The same holds true for any such arrangement with Taiwan.

The time and resources spent to gain marginal improvements in trade between the U.S. and Taiwan in a potential FTA would distract from the more drastic changes needed to strengthen the U.S. or Taiwanese geopolitical situation vis-à-vis China.

## **Serving American Strategic Economic Interests**

An FTA with Taiwan will not serve the United States' strategic economic interests. The U.S. already has strong trading opportunities with Taiwan and there is no need to lower tariffs much further, as average tariff levels in Taiwan are already quite low. Taiwan's average nominal tariff rate for industrial products in 2022 is 4.13% and its overall average nominal tariff rate is 6.34% according to International Trade Administration data.<sup>1</sup> The United States currently has a trade-weighted average import tariff rate of 2.0% on industrial goods.<sup>2</sup> Again, improvements in trade

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<sup>1</sup><https://www.trade.gov/country-commercial-guides/taiwan-import-tariffs#:~:text=Taiwan%20continues%20to%20make%20unilateral,imported%20goods%20was%206.34%20percent>

<sup>2</sup><https://ustr.gov/issue-areas/industry-manufacturing/industrial-tariffs#:~:text=The%20United%20States%20currently%20has,2.0%20percent%20on%20industrial%20goods>

between the U.S. and Taiwan in a potential FTA would be marginal, and would divert focus from more pressing concerns.

It is important to remember that we can both ally ourselves with Taiwan and yet still maintain sober objectivity in observing Taiwan's persistent ills in the realm of international trade. Taiwan has a long history as a known currency manipulator, consistently devaluing its New Taiwan dollar (NT). It is currently on the U.S. Department of Treasury's Monitoring List for countries known to intervene in the foreign exchange market to asymmetrically stave off upward pressure on their currencies. It was subject to enhanced analysis in the two previous Treasury reports. In expressing the national disapproval of U.S. major trading partners subject to monitoring, the June 2022 Report states, "The Biden Administration strongly opposes attempts by the United States' trading partners to artificially manipulate currency values to gain unfair advantage over American workers."<sup>3</sup> The Taiwanese central bank does not take responsibility for its actions either. The Taipei Times reports that, "the bank never admitted to it, saying only that it had a responsibility to combat volatility and maintain market stability."<sup>4</sup>

Taiwan is also known to subsidize its industry and has a strong grip on industrial policy nationally. In any free trade deal, Taiwan would seek to preference and advantage its domestic industry, defeating the very purpose of a free trade agreement in the first place that seeks to establish free flowing and reciprocal trade unencumbered by national preferences.

Another critical point to be made is, given the unfortunate regional instability and precarious geopolitical position of Taiwan, it would make little sense to further entrench U.S. supply chains (which are already experiencing resiliency and shock problems) in this particular bilateral trade relationship. This is especially so because most of Taiwan's core trade products are essential inputs in critical industries (such as semiconductors and key electronics components). Given that any attempt by China to attack Taiwan would almost certainly involve an economic blockade of the island, this seems ill-witted. Taiwan makes 90% of the "most advanced" computer chips.<sup>5</sup> The key question lawmakers must ask is "how would an FTA create favorable conditions for U.S. domestic industry to grow and lessen our overreliance on Taiwanese chips?"

The United States trade deficit with Taiwan, which is already unbalanced, would only worsen under an FTA and further disadvantage U.S. interests in our bilateral trade. Taiwan recorded a \$40 billion bilateral trade surplus with the United States in 2021.<sup>6</sup> Since 2002, the U.S. bilateral goods trade deficit with Taiwan has tripled, from \$13.8 billion in 2002 to \$40.2 billion in 2021. The main drivers of the larger deficit are the undervaluation of the New Taiwan dollar and the Taiwanese government's policies of providing government support for export industries and

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<sup>3</sup> [https://home.treasury.gov/system/files/136/FINAL\\_Spring\\_2022\\_FXR.pdf](https://home.treasury.gov/system/files/136/FINAL_Spring_2022_FXR.pdf)

<sup>4</sup> <https://www.taipeitimes.com/News/taiwan/archives/2022/06/12/2003779762>

<sup>5</sup> <https://www.nytimes.com/2022/01/26/us/politics/computer-chip-shortage-taiwan.html>

<sup>6</sup> [https://home.treasury.gov/system/files/136/FINAL\\_Spring\\_2022\\_FXR.pdf](https://home.treasury.gov/system/files/136/FINAL_Spring_2022_FXR.pdf)

controlling imports. Taiwan's global trade surplus last year was \$65 billion, equivalent to 8.3% of its GDP. According to the Treasury Report, that is one of the world's largest trade surpluses. Taiwan's bilateral surplus with the U.S. is very strong as well. Bilaterally, in computer and electronics goods it has risen 217% since 2002, from \$8.7 billion to \$27.7 billion. In fabricated metal products it has risen from \$2.4 billion to \$6.1 billion, an increase of 156%. U.S. Job loss can be anticipated, as an FTA would only accelerate the widening U.S. trade deficit with Taiwan.

Experience with South Korea saw our deficit double within seven years of the United States-Korea Free Trade Agreement (KORUS FTA) taking effect. Something similar could happen with a Taiwan agreement. Using the standard rough estimate that every billion dollar increase in our trade deficit represents 6,000 lost jobs, a doubling of our Taiwan trade deficit to \$80 billion would cost us 240,000 jobs.<sup>7</sup>

### **Taiwan Support and Defense Concerns**

Taiwan deserves help through diplomatic and military tools, and CPA believes we should support Taiwan's defense posture, particularly through sales of military assets appropriate to deter and defend from current threats. In doing so, we should reevaluate current military financial support for purchases and threat deterrence while simultaneously strengthening the U.S. regional alliance structure in East Asia. The U.S. should bolster Taiwan's credibility on the world stage by seeking to elevate Taiwan in existing international institutions and support giving it "Observer" status at the United Nations and related bodies.

The U.S. should be defunding China's ability to wage war and increase the costs it would incur should it pursue armed conflict with Taiwan, by applying pressure now, in an effort to deter future conflict and forewarn the severe repercussions the United States is prepared to level in the event of further Chinese aggression or invasion. The United States should enhance its toolkit of sanctions, export and import controls, and foreign direct investment (FDI). It should also expand this toolkit with new measures to address outbound FDI as well as outgoing capital flows and to crack down on U.S. investment funding Chinese companies engaged in forced labor or Chinese military collaboration, as well as the general support of Chinese entities by U.S. retail investors and retirees through Exchange Traded Funds (ETFs) and Mutual Funds that track indexes that include Chinese companies. There is no reason why U.S. capital should be funding Chinese companies building weapons of war that the CCP seeks to use against Taiwan or the U.S. in a potential future conflict. This should apply to dual-use and military-civil-fusion companies supporting China's military-industrial complex and academic researchers and universities in China that aid in the development of these technologies.

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<sup>7</sup> <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2011/october/trade-agreements-and-jobs>;  
<https://prosperousamerica.org/how-the-record-q1-u-s-trade-deficit-shrank-the-economy/>;  
<https://prosperousamerica.org/the-high-cost-of-trade-deficits/>

The U.S. should collaborate with Taiwan on matters where we can advance our mutual interests. For instance, we should work to stop the damaging effects of Chinese disinformation undermining our shared values. We should reshore industry to reduce U.S. dependence on China. By disentangling from China and helping Taiwan do the same, we can build out more resilient supply chains domestically that improve the United States' own geopolitical position, and that of our ally Taiwan. In fact, Taiwan should seek to relocate some of its own critical sourcing to American shores, lessening China's grip on its own economy and finding more hospitable conditions here.

One of the lessons learned from the recent Russian invasion of Ukraine is that costly consequences and sanctions should be leveled up front, to **precede** anticipated aggression. This has the outcome of:

- a. Increasing the potency of deterrent effect;
- b. Making the presumed aggressor experience some pain and penalties in advance, forcing them to think twice and recalculate before moving forward with armed conflict;
- c. Showing the presumed aggressor that the United States is credible to carry out our threats of punishment.

## Conclusion

The Coalition for a Prosperous America embraces a strong and secure Taiwan with the backing of dominant U.S. military and industrial capabilities. However, trade agreements are the wrong tool for foreign policy and simply do not help prevent war. We must remain clear-eyed about our existing trade disadvantages with Taiwan and their manipulative behavior in foreign currency markets, and not let our desire to stand with them against Chinese aggression cloud our own national economic interests. The Chinese are clear, intentional, and sober about their position on Taiwan and the U.S. We should be too, and develop a comprehensive strategy to respond decisively in a manner that best suits our national economic interests as well.

Sincerely,



Zach Mottl, Chairman  
Coalition for a Prosperous America



Michael Stumo, CEO  
Coalition for a Prosperous America