

**TAIWAN'S TRADE AND INVESTMENT
FRAMEWORK AGREEMENT
WITH THE UNITED STATES**

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Executive Summary

1. Taiwan's lifting of the ban on US beef containing certain amounts of ractopamine signifies that the bilateral talks under the Trade and Investment Framework Agreement (TIFA) shelved since 2008 are likely to be resumed soon.
2. Since its initiation in 1994, TIFA had been a means for Taiwan to consult the US on a broad range of economic issues without reaching any significant agreement. Taiwan had intended to keep high level talks with America mostly due to its political isolation in the international community then.
3. What makes today's Taiwan-US trade talks different from that nearly two decades ago is the "China factor". Economically, Taiwan's massive investment in the Mainland has changed the supply chain into Taiwan taking the orders while China produces the final goods and ships them to the US.
4. Taiwan's relatively high level of direct exports to China makes the implementation of Economic Cooperation Framework Agreement (ECFA) a far more important undertaking than the TIFA with the US.
5. The resumption of TIFA talks is thus more politically motivated than economically substantive for Taiwan. The Taiwanese government considers the TIFA with America useful for it encourages more trade negotiations with other economies, creates favorable conditions for the island's entry into the Trans-Pacific Partnership (TPP) and further enhances Taiwan's substantive diplomacy.
6. Taiwan also aims to reduce its heavy economic dependence on China and the possibility of a future political compromise with its deep involvement in regional economic integration.

7. In 2011, the US was Taiwan's largest import source for agricultural and pharmaceuticals products. It is also the largest foreign investor in financial services on the island in the past five years. However, to the US, Taiwan's economy is still not fully open to foreign firms and TIFA is a way for it to have greater access to Taiwan's market.
8. The prospects of TIFA paving the way for a Taiwan-US FTA and the island's eventual entry to TPP are not very encouraging. It may take a longer time for the Taiwanese government to minimize the negative impacts on domestic services and the agricultural sectors.
9. Politically, TPP acts as a US-led strategic alliance against China instead of a real free trade network. Taiwan's entry into TPP may thus upset China and even adversely affect the recent harmonious cross-strait relations.
10. Due to the unclear future of Taiwan-US FTA and Taiwan's entry into TPP, the island is more likely to make efforts to secure the economic benefits gained from ECFA in order to counterbalance the impact from the potential FTA between China, Japan and South Korea in the Chinese market.