Asian Studies Center

Backgrounder

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CLOSING THE U.S.-TAIWAN TRADE GAP WITH A FREE TRADE AREA

INTRODUCTION

There was a period immediately following the January 1, 1979, derecognition of the Republic of China (ROC) on Taiwan by President Jimmy Carter when many doubted the continued survival of the ROC as a viable political and economic entity. Confidence on the island fell as the sense of having been betrayed by the United States spread throughout the society. Investment declined. Those able to do so began to look abroad for a sanctuary for their families and life's savings. Resentment against the international community also ran high because of the ROC's diplomatic isolation. Something akin to a siege mentality therefore permeated businessmen, scholars, and officials charged with the responsibility for charting the ROC's future course.

Today, such gloom has lifted. The ROC now is one of the most dynamic and progressive societies in Asia. It is the sixteenth largest trading nation in the world. Feelings with the U.S. have improved. The only area of tension between Washington and Taipei is trade.

In 1979, U.S.-ROC trade stood at $9 billion, with Taipei enjoying a $2.3 billion surplus. Last year, trade was valued at $26.7 billion, with the ROC surplus at about $16 billion. The U.S. trade deficit with the ROC is its third largest in the world; it is the largest if calculated on a per capita basis. If trends established during the first six months of this year continue, the ROC will have a $19 billion trade surplus with the U.S. in 1987. As such, Congress repeatedly has targeted Taipei in trade legislation, including the Gephardt Amendment.

Best Solution. The best solution for narrowing the U.S.-ROC trade gap is not protection. It is for increased access to ROC markets for American products. Unlike Japan, which balks and stalls at every attempt to lower its tariff and nontariff barriers to U.S. goods and services, the ROC has taken major substantive steps in recent years to open its markets to American and other foreign products.

These steps include several "Buy American" procurement missions to the U.S. which have purchased $8 billion in U.S. agricultural and industrial products, the signing of long-term grain purchasing agreements, the adoption of favorable trade measures to support U.S. businesses, the lowering of customs tariffs, and the removal of nontariff barriers.

To be sure, the U.S. must continue to pressure the ROC in those areas where access is closed or where it is difficult for American firms to penetrate. More needs to be done, for example, in securing equal treatment for American banks, insurance companies, and shipping firms. ROC legislation protecting intellectual property rights needs to be fully implemented. And purchases of U.S. big-ticket items in major ROC projects should continue to be encouraged.

Expanding Trade. But Washington should also acknowledge Taipei's sincere efforts in removing its barriers. The Congress especially should not subject the ROC to the same type of punitive measures aimed at Japan. U.S. interests would be harmed if the ROC's economic growth was stymied by a major cutback in ROC exports. A major percentage of those exports, for example, come from American firms assembling products in Taiwan and shipping them back to the U.S. The biggest exporter is General Electric, followed closely by Sears, K Mart, J.C. Penny, General Instruments, IBM, Hewlett-Packard, Mattel, Schwinn, and Wilson Sporting Goods.[1]

It is in the interests of both the U.S. and ROC to expand rather than curtail free and fair trade. One concept of great potential is the creation of a Free Trade Area (FTA) between Washington and Taipei. Such a commercial agreement, negotiated under the authority of the Taiwan Relations Act, gradually would remove all trade barriers between the two countries. The main advantage for the ROC would be a dependable U.S. market. The principle advantage for the U.S. would be open access to the ROC's growing consumer society.

To explore this promising concept, the U.S. Congress needs to pass legislation authorizing the Administration to enter into an Free Trade Area with the ROC under the TRA's commercial umbrella. For its part, the Administration should begin analyzing the costs and benefits for the U.S. of such an FTA and initiate exploratory talks with the ROC's trade officials to determine a time frame and broad outlines for an eventual agreement.

THE ROC TODAY

In the four decades since the end of World War Two, the Republic of China on Taiwan has become one of the outstanding examples of the free market in the developing world. Per capita income today is over $3,700--the third highest in Asia. Income is fairly evenly distributed among the island's 4.4 million households, which have an average income of nearly $12,000. The island's residents have the highest savings rate in the world, 37 percent. Each household currently has an average of over $10,600 in savings. Some 80 percent of all families own their own homes.

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1. *Asian Wall Street Journal Weekly*, June 1, 1987, p. 4.

Because of this newfound wealth, the Chinese on Taiwan are becoming avid consumers with a marked preference for imported goods. Last year, household appliance imports rose 33.5 percent.[2]

Lifting Martial Law. Political liberalization has followed economic prosperity. Last month, President Chiang Ching-kuo formally lifted martial law on the island, the latest in a series of steps the ruling Kuomintang (KMT) party has taken to democratize the political system. Soon, residents of Taiwan will be allowed to visit the mainland.[3] While national security concerns remain high because of the ever-present danger of an attack from the communist People's Republic of China (PRC) 100 miles away across the Taiwan Strait, policy debates on Taiwan largely have shifted to issues of political liberalization, protection of the environment, cultural enhancement, public transportation, and quality of life.

The U.S. has played an important role in the ROC's evolution. Following Carter's unilateral termination of U.S.-ROC diplomatic relations, Congress overwhelmingly passed the 1979 Taiwan Relations Act (TRA). It enabled the U.S. to maintain full commercial, cultural, and other relations with the people of Taiwan, and all but technically official ties with the government of the ROC. The TRA has given Ronald Reagan the legal authority to supply Taipei with the defensive arms and technology to deter the PRC from attempting a forced reunification of Taiwan with the mainland.

For the last two years, however, the excellent relations between Washington and Taipei have become strained because of the ROC's rapidly growing trade surplus with the U.S.

PATTERNS OF U.S.-ROC TRADE

For many years the U.S. has been Taipei's largest trading partner. Last year, the ROC was the sixth largest trading partner of the U.S. behind Canada, Japan, West Germany, Mexico, and Britain. Total U.S.-ROC trade was valued at $26.7 billion, with Taiwan exports to the U.S. totaling $21.25 billion and U.S. exports to Taiwan totaling $5.52 billion.[4] In terms of exports to the U.S., the ROC ranked fourth behind Japan, Canada, and West Germany. In terms of importing U.S. goods and services, the ROC was the tenth largest, behind Canada, Japan, Mexico, Britain, West Germany, The Netherlands, France, South Korea, and Australia. The ROC's $16 billion trade surplus with the U.S. was the third largest in the world behind Japan and Canada. On a per capita basis, the ROC enjoyed the world's largest trade surplus with the U.S.

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2. See *Foreign Economic Trends and Their Implications for the United States: Taiwan* (Washington, D.C.: Department of Commerce, June 1987).

3. *Asiaweek*, September 6, 1987, pp. 24-26.

4. For trade and other statistical data on the ROC, see *Economic Data on East Asia and the Pacific* (Washington, D.C.: Department of State, Office of Economic Policy, Bureau of East Asian and Pacific Affairs, June 9, 1987), pp. 169-172.

In 1986 the ROC's exports worldwide increased 30 percent, while its imports increased 28 percent. Although exports accounted for only 5 percent of the U.S. Gross National Product (GNP) of $4.2 trillion, they accounted for 58 percent of the ROC's $72.5 billion GNP. Of Taipei's total exports of $39.8 billion, some 53 percent went to the U.S. Of U.S. total exports of $217.3 billion, only 2.5 percent went to Taiwan. The ROC's major exports to the U.S. were manufactured goods, textiles, footwear, telecommunications equipment, electrical machinery, office machines, and furniture. Major imports from the U.S. were electrical machinery, chemicals, agricultural products, office equipment, transportation equipment, and telecommunications equipment. The significant differences between the two countries' market size and industrial structure explain why the ROC is likely to enjoy a trade surplus with the U.S. for some time.

$278 Each on U.S. Goods. The market size of the U.S., for example, is ten times that of the ROC. The U.S. population exceeds 240 million, while Taiwan's population in 1986 was 19.4 million. In 1986, U.S. products made up about 22 percent of the ROC's total imports of $24.2 billion, while ROC products accounted for only 5 percent of total U.S. imports of $387.1 billion. Each ROC citizen spent an average of $278 or 7.4 percent of his or her income on U.S. goods last year. Each American on average spent $84 or 0.5 percent of his or her income on ROC goods. On a per capita basis, the people of the ROC were purchasing four times as much from the U.S. than the American people were buying from the ROC.

The ROC economy, moreover, is much more dependent on trade than is the U.S. economy. Last year, the ROC trade/GNP ratio was $64 billion/$72.5 billion, or 88 percent, one of the highest in the world. The U.S. trade/GNP ratio was $604.4 billion/$4,200 billion, or 14 percent; Japan's was $329.8 billion/$1,963 billion, or 17 percent; and South Korea was $66.3 billion/$95.1 billion, or 70 percent. It is natural that the ROC, one of the world's greatest trading nations, would export heavily to the U.S., the world's largest consumer market.

U.S. COMPLAINTS ABOUT ROC TRADE PRACTICES

For several years the major U.S. complaint has been that the ROC economy is too dependent upon the U.S. market. In response, the ROC attempted to expand its markets in Europe, Africa, Latin America, the Middle East, South Asia, and the Association of Southeast Asian Nations (ASEAN). These efforts have met with only marginal success because of Taipei's limited political presence in other countries and the tariff and nontariff barriers its products face in these markets. For the foreseeable future, therefore, the U.S. will remain the ROC's most important trading partner.

Acknowledging the difficulty Taipei is having in opening other markets, the U.S. has focused in recent years on removing barriers to American goods and services in the ROC.[5] Areas in which the U.S. has voiced special concern include

5. See the presentation of Dr. Joseph Kyle of the American Institute in Taiwan in Martin L. Lasater, ed., *The Two Chinas: A Contemporary View* (Washington, D.C.: The Heritage Foundation Lecture No. 55, 1967), pp. 40-53.

high tariffs and other import charges, quantitative restrictions, customs barriers, and nontariff barriers. Specific examples of U.S. complaints include:

◆◆ high tariffs on specific products and inflating the value of imports before calculating import duties;

◆◆ restrictions on the sale of U.S. wines, beers, and tobacco products through retail outlets;

◆◆ major restrictions upon the operation of U.S. banks, insurance companies, and other services on Taiwan;

◆◆ restrictions on U.S. shipping firms in carrying ROC products;

◆◆ discriminatory treatment against U.S. motion picture producers and distributors on Taiwan;

◆◆ violation of U.S. intellectual property rights through widespread counterfeiting of such things as publications, computer software and hardware, musical tapes and cassettes, and video cassettes.

Another area of U.S. complaint was the tremendous buildup of ROC foreign exchange reserves. At the end of 1985 these totaled $22 billion; by last year they had reached $47 billion; this May they were $57 billion--one of the largest in the world. At the same time, there were tight restrictions on the use of those reserves. The ROC Ministry of Economic Affairs, for example, rarely allowed ROC businessmen to invest their foreign exchange earnings overseas. Many Americans felt that these funds should be released for investment in the U.S. to compensate for the large trade surplus enjoyed by the ROC.

A somewhat parallel concern of the U.S. was the value of the New Taiwan Dollar (NT$) relative to the U.S. dollar. For years, the exchange rate had been between 38 and 40 NT$ to US$1. Americans argued that this was an artificially low value for the ROC currency and it was making American products expensive in the ROC and ROC products relatively cheap in the U.S. This contributed to high American consumer demands for ROC products and thus added to the trade imbalance in Taipei's favor.

ROC LIBERALIZES TRADE WITH U.S.

Because of the vital importance of the U.S. to Taipei, the ROC has been sensitive to U.S. criticisms of its trade policies. Numerous steps have been taken to liberalize trade practices, often at considerable inconvenience to ROC businessmen. Among the significant steps are:[6]

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6. See "ROC's Efforts and Accomplishments in Liberalizing Trade and Improving Market Access" (Taipei, ROC: Board of Foreign Trade, Ministry of Economic Affairs, April 1987).

◆◆ From 1978 to 1986, twelve special ROC procurement missions were sent to the U.S. to buy American agricultural and industrial products. The total value of purchases exceeded $8 billion. Another mission was sent this July to purchase an additional $2.7 billion in U.S. goods.

◆◆ Long-term grain purchasing agreements have been signed. The ROC currently buys 100 percent of its imported soybeans from the U.S., 99 percent of its imported corn, 83 percent of its imported tobacco leaf, and 64 percent of its imported apples. The ROC is the third largest buyer of U.S. corn, barley, and soybeans in the world.

◆◆ Measures have been adopted to promote purchases of U.S. products. The ROC has imposed limitations on foreign sources for 38 products to encourage purchases from the U.S.

◆◆ The ROC government actively promotes U.S. products through sponsorship of the American Trade Center in Taipei and large-scale exhibitions of American products in major cities throughout the island.

◆◆ In 1985 new trademark and copyright laws were passed providing stiffer and more certain penalties for infringement of intellectual property rights.

◆◆ Last year there was increased procurement of U.S. products for major projects such as nuclear and conventional power installations, expanding the fleet of China Airlines, industrial plants, and ground transportation systems.

◆◆ The New Taiwan Dollar has been allowed to appreciate more than 17 percent to an exchange rate of around NT$29 to US$1. This makes American products cheaper in the ROC and Taiwan products more expensive in the U.S. It also has caused considerable hardship to ROC businessmen who typically sell at a small margin of profit to remain competitive in world markets.

◆◆ This July restrictions on the use of foreign exchange were liberalized. Under current regulations, each person on Taiwan is allowed to remit a maximum of US$ 5 million each year out of the country. This should stimulate ROC investment in the U.S. within a short time.

In addition to these steps, the ROC this year has taken serious measures to lower tariffs and nontariff barriers to American and other foreign goods and services.[7] In January, the ROC reduced tariffs on 1,714 items or 39 percent of its Tariff Schedule. Tariff cuts on an additional 862 items were announced in April and on a further 330 items in May. The steepest ROC tariff is the 58 percent on automobile components, which compares favorably to South Korea's 100 percent customs duty on bananas and the European Community's (EC) 67 percent duty on syrup.

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7. *Ibid.* Also see "Tariff Cuts in the Republic of China on Taiwan" (Taipei, ROC: Board of Foreign Trade, Ministry of Economic Affairs, May 31, 1987.

The ROC has lower tariffs: on chocolate than South Korea, Japan, and the EC; on cosmetics and color TVs than South Korea; on apparel than South Korea, the U.S., and the EC; and on footwear than South Korea, Japan, the U.S., and the EC. The ROC's real tariff rate has been reduced from 14.1 percent in 1971 to 7.7 percent in 1986. By 1990 it will be down to 5 percent.

Lifting Bans. In terms of nontariff barriers, Taipei has also taken major steps to liberalize its trade with the U.S. Bans on several products such as American pears, soda ash, and zinc pyrithione have been lifted; local content requirements for VCRs and color TVs have been eliminated; performance requirements in the automotive sector have been removed. In addition, Taipei has opened up its service sector to American investment. As a result, the ROC has become home to hundreds of outlets of American fast food chains such as McDonald's, Wendy's, Hardee's, Pizza Hut, and Kentucky Fried Chicken.

Recently, the ROC has agreed to allow American banks to issue credit cards and establish branch offices in cities other than Taipei. Further, American insurance companies have been allowed to sell non-life insurance on Taiwan for the first time. Also, the quota system and surcharge imposed on American films have been abolished.

As significant as these steps towards trade liberalization have been, the U.S. correctly urges Taipei to take additional steps. These include:[8]

◆◆ Implementation of the Fair Trade Act to ensure that intellectual property rights are better protected on the island;

◆◆ Additional tariff reductions on products U.S. exporters identify as having significant potential;

◆◆ Equal access for U.S. firms in ROC service sectors, particularly insurance, banking, and shipping;

◆◆ Greater efforts to buy American products for major projects in the public and private sectors.

In a recent study on economic trends in the ROC, the U.S. Department of Commerce said, "U.S. firms will find major opportunities in the health, energy, transportation, environmental, information processing, communications, electronics, consumer, and process control markets." The study listed several billions of dollars in major projects in each of these fields and encouraged U.S. firms to contact the American Institute in Taiwan or the Commerce Department for further detail.[9]

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8. See the remarks of Dr. Joseph Kyle of AIT in Martin L. Lasater, ed., *U.S.-ROC Economic Issues: Problems and Prospects* (Washington, D.C.: The Heritage Foundation, 1987, forthcoming).

9. *Foreign Economic Trends and Their Implications for the United States: Taiwan,* p. 9-11.

A U.S.-ROC FREE TRADE AREA

Erecting protectionist barriers will not eliminate the U.S.-ROC trade gap. Instead they will impose heavy costs on the U.S. economy and consumers. It is possible, however, to narrow the gap in a way beneficial to both the U.S. and ROC by creating a Free Trade Area (FTA) between Washington and Taipei.[10]

Free Trade Areas are bilaterally negotiated agreements to reduce over a relatively short period of time all tariffs and quota restrictions on goods shipped between two trading partners.[11] Currently, the U.S. is phasing in an FTA with Israel and is negotiating an FTA with Canada. Countries expressing an interest in an FTA with the U.S. include Singapore, Thailand, and Uruguay, as well as the ROC. Mainland China also has shown interest in exploring the idea. Various Latin American and Caribbean nations and the Association of Southeast Asian Nations as a group have been mentioned as possible candidates for FTAs with the U.S.

FTAs are permitted under Article XXIV of the General Agreement on Tariffs and Trade (GATT). FTAs are completely fair since both parties remove their tariffs and quotas. Economic advantages of FTAs to the U.S. include unrestricted access of U.S. businesses to foreign markets, future trade certainty for American investors, lower prices for American consumers, and a trade environment encouraging more competitive U.S. industries. Advantages to foreign FTA partners of the U.S. include assured access to the American market, stimulation to domestic industries to become more competitive, and faster economic growth.

Pressuring Japan. Bilaterally negotiated FTAs create enormous incentives for countries originally not parties to FTAs to join them. As the economic benefits of a U.S.-ROC FTA became apparent, other Asian countries, including Japan, would approach the U.S. to negotiate their own FTA with Washington. Hence, an FTA between the U.S. and the ROC would stimulate free and fair trade throughout the Asia-Pacific region. This is a prime objective of U.S. trade policy.

In the case of the ROC, an FTA agreement would be negotiated between the Taipei-based U.S. American Institute in Taiwan (AIT) and the ROC's Washington-based Coordination Council for North American Affairs (CCNAA). These two

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10. The proposal was first made in January 1986 by Dr. Edwin Feulner and Richard V. Allen in a Heritage Foundation conference in Washington, D.C., cosponsored by the Asian Studies Center and Taipei's Asia and World Institute. Subsequent exploration of the idea occurred in conferences in Taipei in July 1986 and in Washington in June 1987. The proceedings of the three conferences have been published in Martin L. Lasater, ed., *The Two Chinas: A Contemporary View*; Phillip M. Chen, ed., *Politics and Economics of a U.S.-ROC Free Trade Area* (Taipei, ROC: Asia and World Institute, 1986); and Martin L. Lasater, ed., *U.S.-ROC Economic Issues: Problems and Prospects* (forthcoming).

11. For an explanation of FTAs, see Edward L. Hudgins, "Free Trade Areas: Removing Trade Obstacles and Bucking Protection," Heritage Foundation *Backgrounder* No. 587, June 17, 1987.

organizations were created to handle relations between the U.S. and ROC after Jimmy Carter unilaterally broke formal ties with Taipei.

Permitted by Law. The Taiwan Relations Act of 1979 specifically states in Section 2(b): "It is the policy of the United States to preserve and promote extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people on Taiwan." Hence, the creation of a FTA between Washington and Taipei on a strictly commercial basis negotiated between AIT and CCNAA would be permitted by U.S. law and be compatible with overall U.S. China policy.

For its part, Taipei generally has viewed the FTA concept with enthusiasm. Vincent Siew, Director General of the Board of Foreign Trade in the ROC's Ministry of Economic Affairs, sees several advantages of an FTA. At a July 1986 conference in Taipei, he said that an FTA would strengthen ties between Washington and Taipei and ensure that ROC trade liberalization would benefit primarily the U.S. and not Japan.[12]

ROC policy on an FTA with the U.S. was outlined at a recent Heritage Foundation conference by Benjamin Lu, Director of the Economic Division of CCNAA in Washington:[13]

> For several years my government has been exploring various ways to improve the bilateral trade relationship with its major and most important trading partner, the United States. In particular, we were anxious to look into ways of protecting this trade relationship from the wide swings in political activity that are generated in both countries on an increasingly regular basis. Our commitment to the liberalization of our trading regime is sincere and it is strong.
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> We would like to suggest the idea of beginning serious thought, discussion, and analysis of a bilateral Free Trade Area between the United States and the Republic of China.
>
> What we are proposing is something similar to the FTA already in place between the United States and Israel and the one which is being developed between the United States and Canada. That is, over a period of time, the removal of all tariff and non-tariff barriers on trade between our two countries. This would include the free flow of investment, a free flow of services, and the negotiation of practices in the areas of intellectual property rights protection, licensing standards, matters of payment practices, and subsidies.
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> This is a bold initiative on the part of my government, and a sincere one, and should make abundantly clear our firm commitment to liberalize our trade regime to the fullest extent.

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12. Chen, *op. cit.*, pp. 53-59.

13. See Benjamin Lu's remarks in Lasater, ed., *U.S.-ROC Economic Issues*.

Beijing's Private Inquiries. In contrast to Taipei's enthusiasm for exploring the possibilities of an FTA, the Office of the U.S. Trade Representative (USTR) has shown some reluctance to open FTA discussions with the ROC at this time. In part, this reflects political uncertainty as to what Beijing's reaction would be to a U.S.-ROC FTA. Beijing is still studying the idea and in fact has privately inquired into the prospects of its own FTA with the U.S.

Other concerns of the Administration were raised by USTR East Asia representative Sandra Kristoff at the Heritage conference.[14] These included:

◆◆ The Administration prefers to achieve trade liberalization through multilateral efforts under GATT. FTAs negotiated with Israel and Canada were not intended to detract from that effort and were entered into "in a very studied manner." Now that the Administration has launched the Uruguay Round, it is even more reluctant to move into FTA discussions.

◆◆ Neither the U.S. nor the ROC has conducted the analysis necessary to determine the FTA's costs and benefits. These studies must be completed before an FTA can be negotiated seriously by either government.

◆◆ Progress is being made on U.S.-ROC trade issues on a product-by-product, issue-by-issue basis. It is uncertain whether the U.S. would gain by a more comprehensive approach to the removal of tariffs and nontariff barriers.

◆◆ Congress must authorize the Administration to negotiate an FTA with Taipei before the first steps can be taken.

◆◆ There is some disagreement within the Administration as to whether the Taiwan Relations Act allows the U.S. to negotiate an FTA with Taipei.

◆◆ There is concern within the U.S. trade bureaucracy over a "trend of Balkanization in a series of FTAs." For the past four decades U.S. trade policy has been multilaterally oriented; emphasis on FTAs would signal a shift in this policy.

To a great extent, the U.S. Trade Representative's objections to an FTA with the ROC appear to be primarily bureaucratic and political. The USTR office is understaffed; only four individuals handle all of East Asian trade issues with the U.S. Understandably, there is reluctance to undertake the kind of major project that a U.S.-ROC FTA would be. The solution to this, however, is not to dismiss the possibility of a U.S.-ROC FTA, but to increase USTR staffing levels.

The political objections to a U.S.-ROC FTA are said to come from one potential source: the People's Republic of China on the mainland. Since the Taiwan Relations Act permits commercial agreements to be negotiated between the U.S. and ROC, and an FTA by its very nature is a commercial agreement, Beijing's objections, if any, should therefore not present an obstacle.

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14. *Ibid.*

What is immediately needed from both Taipei and Washington is a more comprehensive examination of the costs and benefits of an FTA between the two countries.

CONCLUSION

From a political point of view, the ROC's $16 billion trade surplus with the U.S. is a problem. But Taipei's $21 billion in exports to the U.S. is only 14 percent of the $154.2 billion that the U.S. imports from Japan and Canada. Further, ROC exports to the U.S. represent only 5 percent of total U.S. imports in 1986. Moreover, American consumers like ROC products and, ultimately, it is they who would suffer if Congress enacted protectionist legislation designed to keep these products out of the U.S. The protectionist approach to the ROC trade surplus is unsound politically and economically.

On the other hand, there is a considerable room for expansion of U.S. exports to the ROC, despite the fact that on a per capita basis Taipei imports four times as many U.S. products as do Americans the goods of the ROC. In 1986, the ROC imported 34 percent of its goods and services from Japan, and only 22 percent from the U.S. There are many reasons for this, but political necessity dictates that the U.S. percentage should increase and that of Japan decrease very substantially over the next few years.

Liberalizing the Market. Both Washington and Taipei insist that their governments' policy is to increase U.S. exports to the ROC. To their credit, both governments have worked hard the past two years to solve the outstanding problems existing in the trade arena. In this, the ROC has had to make major adjustments in liberalizing its markets and trade practices. Congress should recognize this fact and not penalize Taipei. It is definitely not in the same category as the far more recalcitrant Japan.

Perhaps the most promising proposal in the U.S.-ROC trade relationship is the creation of a Washington-Taipei Free Trade Area in which both tariff and nontariff barriers would be removed between the two countries. Such an agreement would benefit the people of both countries and ultimately stimulate free trade elsewhere in Asia. Since Taipei has signaled its desire to enter into an FTA with the U.S., Congress should authorize the Administration to proceed with preliminary analysis and negotiations. The Administration should begin its formal inquiries into the cost and benefits to the U.S. of such an FTA at the earliest possible opportunity.

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