

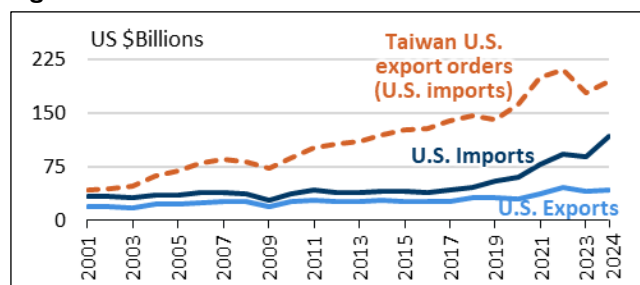
# U.S.-Taiwan Trade and Economic Relations

Taiwan is a top U.S. trade partner and a key link in global technology and manufacturing supply chains. Taiwan's economy is highly dependent on global trade; exports account for about 70% of its gross domestic product (GDP). Taiwan's policies are seeking to generate growth in emerging technologies and reduce its dependence on the PRC by diversifying trade and investment and on-shoring some production. Central to these efforts are U.S. and Taiwan government actions to deepen commercial ties. Issues facing Congress include identifying and asserting its prerogatives over the U.S.-Taiwan 21<sup>st</sup> Century Trade Initiative negotiations and considering legislation that would prevent double taxation and boost two-way investment. Also see CRS In Focus IF10275, *Taiwan: Background and U.S. Relations*, and CRS In Focus IF12481, *Taiwan: Defense and Military Issues*.

## U.S.-Taiwan Commercial Ties

Taiwan is the United States' 7<sup>th</sup>-largest merchandise trading partner (\$158.6 billion in total goods trade), 10<sup>th</sup>-largest export market (\$42.3 billion), and 8<sup>th</sup>-largest source of imports (\$116.3 billion), according to 2024 U.S. data (and when the European Union is considered as one trading partner). U.S. agricultural exports to Taiwan in 2024 were \$3.8 billion. U.S. service exports to Taiwan in 2023 were \$11.9 billion. Since 2018, Taiwan's goods exports to the United States have increased in part due to U.S. tariffs on the PRC and efforts to shift some production from the PRC to Taiwan. Taiwan's exports to the United States grew by 100% between 2018 and 2022, fell by 4.5% in 2023 over 2022, and rose by 32.5% in 2024 over 2023. (Figure 1.)

**Figure 1. U.S.-Taiwan Goods Trade 2001-2024**



**Source:** CRS, with data from the U.S. Bureau of Economic Analysis (BEA) and Taiwan's Ministry of Economic Affairs.

**Notes:** U.S.-Taiwan supply chains involve Taiwan firms' production in the PRC. In 2023, Taiwan firms received \$200.1 billion in U.S. export orders, which included Taiwan firms' PRC-based production.

In 2023, U.S. direct investment stock in Taiwan was \$19.3 billion, and Taiwan's direct investment stock in the United States was \$15.6 billion, according to BEA. (Data do not include investments made through Hong Kong and offshore tax havens.) Taiwan is a top global holder of foreign exchange (FX) reserves. As of January 2025, Taiwan held \$577.6 billion in FX reserves; Taiwan invested \$286.9 billion in U.S. Treasuries as of November 2024.

## Taiwan's Economy

**Population:** 23.4 million people.

**2023 nominal GDP:** \$753.6 billion (1.4% agriculture, 37.6% industry, 61% services); 22<sup>nd</sup> largest global economy.

**Unemployment Rate:** 3.4% (12.4% ages 20-24; 6.1% ages 25-29).

**Main industries:** Electronics, semiconductors, information technology, petrochemicals, textiles, steel, machinery, cement, food, autos, and pharmaceuticals.

**Semiconductors:** About 90% of global advanced chip production is based in Taiwan. Taiwan firms are also active in chip R&D; materials (e.g., silicon wafers); design; and assembly, packaging, and testing. Policy debates in Taiwan include to what extent firms should build capacity in Taiwan, the PRC, the United States, and other markets.

**Competitiveness:** Switzerland's International Institute for Management Development Business School ranks Taiwan as the world's sixth most competitive economy. Taiwan is coping with stagnant wages; technical talent gaps; an aging population; and land, power, and water shortages. The government has taken some steps to phase out nuclear power, but alternatives at this time are limited. The Taiwan government's "5+2" plan is boosting targeted industries—advanced manufacturing, biotechnology, renewable energy, recycling, and defense.

## Efforts to Strengthen Economic Ties

The United States and Taiwan have undertaken several efforts to address market barriers and bolster economic ties:

In 2022, the United States and Taiwan launched a "U.S.-Taiwan Initiative on 21<sup>st</sup> Century Trade," in parallel to the U.S.-led Indo-Pacific Economic Framework for Prosperity, which does not include Taiwan. The initiative covers trade facilitation, regulatory practices, digital trade, anti-corruption, technical standards, labor and environment, agriculture, state-owned enterprises, and nonmarket practices. The two sides reached their first agreement in 2023.

In 2021, the United States and Taiwan resumed talks, last held in 2016, under a 1994 **Trade and Investment Framework Agreement (TIFA)**. Taiwan's agricultural barriers (e.g., regulations banning imports of U.S. pork and beef that contain a leanness-enhancing food additive ractopamine) led the U.S. government to suspend TIFA talks between 2007 and 2013. U.S. concerns about market access barriers in digital services, biotech, medical devices, and energy have persisted.

In 2020, the two sides launched a **U.S.-Taiwan Economic Prosperity Partnership Dialogue**. Annual meetings have discussed supply chain security; PRC economic coercion; digital trade; 5G networks; research; energy; and tax issues. In 2024, the U.S. International Development Finance Corporation announced it would co-invest with Taiwan in projects in the Western Hemisphere and the Indo-Pacific.

Since 2020, the Treasury Department has listed Taiwan in its **currency monitoring report** for currency practices and macroeconomic policies of concern, citing Taiwan's large trade account surplus and foreign exchange reserves.

U.S. policy encourages Taiwan's membership in global economic organizations for which statehood is not required. Taiwan is a member of the World Trade Organization, the Asian Development Bank, and the Asia-Pacific Economic Cooperation forum, which refer to it as an economy or a separate customs territory, not a state.

### Cross-Strait Economic Ties

The PRC (including Hong Kong) is Taiwan's largest trading partner and investment destination with \$230.8 billion in two-way trade in 2024. According to Taiwan trade data, 31.7% of Taiwan's goods exports went to the PRC in 2024, down from 35.2% in 2023, 38.7% in 2022, and 42.3% in 2021. An estimated 177,000 Taiwan citizens worked in the PRC in 2022, down from 242,000 in 2020.

Since 2016, Taiwan authorities have sought to diversify away from the PRC and address the risks of PRC investment in Taiwan's infrastructure (e.g., shipping, finance, and media). This follows the 2008-2016 period when the Kuomintang party negotiated direct trade, transportation, and postal links and a 2010 economic cooperation deal with the PRC. In 2014, protests over a services deal the two sides had negotiated prompted the legislature to suspend its vote on the deal.

Taiwan authorities' efforts to curtail industry's role in the PRC's semiconductor sector has had limited success. For example, Taiwan's Hon Hai Precision, an electronics firm, partnered with the PRC government in chip equipment, design, and production. Taiwan industry leader Richard Chang created China's leading foundry and is developing two others. Beijing has pressured Taiwan's ruling Democratic Progressive Party over its opposition to the PRC's "one country, two systems" framework for cross-Strait relations and its efforts to diversify. The PRC uses incentives to attract Taiwan investment and immigration and pressures firms to constrain Taiwan's diversification efforts. Since 2023, the PRC has had a policy in its Fujian province to promote economic integration with Taiwan. In April 2023, the PRC opened a review of Taiwan's "trade barriers" that lasted through Taiwan's 2024 election cycle. Ahead of the vote, in December 2023, Beijing revoked tariff preferences for 12 petrochemical products. In June 2024, the PRC reinstated tariffs on 134 products it imports from Taiwan, arguing Taiwan's lack of reciprocity.

### Issues Facing Congress

**Trade and Tax.** Some Members say they support negotiating a free trade agreement (FTA) and an income tax deal with Taiwan that would increase two-way investment and trade and diversify Taiwan's commerce away from the PRC. Congress has sought to address the complexities posed by the unofficial status of U.S. relations with Taiwan as it seeks to deepen economic ties. In January 2025, the House Speaker prioritized consideration of H.R. 33, which passed the House (423-1). H.R. 33/S. 199 includes the U.S.-Taiwan Expedited Double-Tax Relief Act and the U.S.-Taiwan Tax Agreement Authorization Act. It aims to avoid double taxation and encourage Taiwan investment in the United States. It would amend the Internal Revenue Code of 1986 by providing special rules for the taxation of certain Taiwan residents with income from sources in the United

States. It would authorize the President to negotiate a tax agreement with Taiwan and provides for a Senate vote on any agreement. Some experts say an FTA could lower Taiwan's barriers to U.S. agriculture and services, increase Taiwan's investment in the United States, and encourage countries to pursue similar deals with Taiwan. Taiwan signed FTAs with New Zealand and Singapore in 2013 and an investment deal with Canada in 2023. Its efforts to seek trade deals with the European Union, Australia, Japan, and the United Kingdom prompted the PRC to exert pressure on those countries. In 2021, Beijing imposed an embargo on Lithuania for enhancing Taiwan ties. In 2021, Taiwan and the PRC applied to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership; Beijing has pressed member countries not to admit Taiwan.

**Tariffs.** In 2018, then President Trump imposed tariffs under Section 232 of the Trade Expansion Act of 1962 on Taiwan steel (25%) and aluminum (10%), citing national security concerns. In February 2025, the President raised aluminum tariffs to 25% and extended aluminum and steel tariffs to U.S. trading partners that had been exempted. This shift could make Taiwan's aluminum and steel exports to the United States more price competitive vis-a-vis other exporters. In February 2025, the President directed a review of unfair foreign trade practices and development of potential reciprocal tariffs which could affect Taiwan.

**Trade Negotiations.** In August 2023, Congress enacted P.L. 118-13, which bars the Executive Branch from negotiating trade deals without congressional consent. The law asserts congressional ex-post approval of the May 2023 agreement with Taiwan, sets conditions for its entry into force, and requires consultation for future agreements.

**Technology.** Congress is overseeing CHIPS and Science Act of 2022 (P.L. 117-167) implementation and related investment in U.S. semiconductor capacity, which includes Taiwan Semiconductor Manufacturing Company Ltd. (TSMC) foundries in Arizona. Separately, TSMC is said to be weighing an investment in U.S. Intel's foundry business. As the executive branch has sought to align PRC technology restrictions with Taiwan, some Members say compromises diluted U.S. restrictions and have urged stronger controls. For example, the Commerce Department granted TSMC a one-year waiver from CHIPS Act restrictions on recipients of U.S. monies from investing in advanced semiconductors in the PRC. TSMC also says it applied to Commerce's Validated End User program, which exempts some license requirements for dual-use exports to China. China has used firms in Taiwan to fabricate chips, recruit engineers, and steal technology. In 2020, the U.S. amended export control rules to restrict sales to PRC Huawei Technologies Co. and its affiliates of chips made with U.S. technology or software. The action restricted Huawei, but not other PRC firms, from making chips in Taiwan. In 2021, PRC firm Pythium reportedly made its advanced chips at TSMC for China's hypersonic missile program. In 2024, TSMC reportedly produced chips for a Huawei-tied firm. In 2022, Taiwan amended its National Security Act to criminalize economic espionage and require approval to use trade secrets and critical technologies outside of Taiwan.

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