The US Indo-Pacific Strategy and U.S.-Taiwan Economic Cooperation

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Since 2006, the term Indo-Pacific gradually emerged as a strategic vision. While some believe that the Pacific and Indian Oceans constitute a natural geopolitical theater and a strategic reality (Medcalf, 2014; Mohan, 2012), others argue that the notion is primarily an ideational construct based on shared values and norms between the United States and its allies and driven by security anxiety over the rise of China (He, 2018; Pan, 2014). Although various policy positions have been articulated by respective countries and their leaders, there is still much ambiguity around the Indo-Pacific strategy and its overall goal. This paper intends to examine the substance of the concept of “Indo-Pacific,” and to identify a practical path for which Taiwan can play a meaningful role in the vision.

The Indo-Pacific: Origin and Context

While the concept of the “Indo-Pacific” was coined by German geographer Karl Haushofer as early as the 1920s, it has gained new interest in the 2000s. During Shinzo Abe’s first term as Japanese prime minister (2006-2007), he proposed a value-based foreign policy to develop closer ties with Australia and India. In March 2007, Abe and the Australian Prime Minister John Howard signed the Joint Declaration on Security Cooperation, elevating the Japan-Australian relationship to a strategic partnership. In August 2007, during his visit to India, Abe addressed the Indian Parliament in a speech entitled “The Confluence of the Two Seas,” in which he spoke of a vision of “dynamic coupling between the two vast oceans as seas of freedom and prosperity” in a “broader Asia” that would expand to include the U.S. and Australia. (Ministry of Foreign Affairs of Japan, 2007).

In a series of speeches delivered by members of the Abe cabinet, the “Arc of Freedom and Prosperity” along the outer ring of the Eurasian continent, from the Baltics to Southeast
Asia, complemented the conceptual linkage of the two oceans. In 2007, with the support of the U.S. Vice President Dick Cheney, Australian Prime Minister John Howard and Indian Prime Minister Manmohan Singh, Abe initiated a Quadrilateral Security Dialogue (Quad), paralleled by joint military exercises entitled Exercise Malabar. China, however, viewed this as an encirclement attempt, and Australian Prime Minister Kevin Rudd soon pulled Australia out of Quad.

In 2011, then U.S. Secretary of State Hillary Clinton (2011) alluded to the “Indo-Pacific” concept, indicating that the Asia-Pacific “spans two oceans—the Pacific and the Indian—that are increasingly linked by shipping and strategy.” She also mentioned the expansion of the U.S.-Australia alliance from “a Pacific partnership to an Indo-Pacific partnership, and indeed a global partnership.”

Abe returned to power in 2012. Since then, he expounded on the notion of the inseparability of the Pacific and Indian oceans as a geopolitical unit, arguing that “[p]eace, stability, and freedom of navigation in the Pacific Ocean are inseparable from peace, stability, and freedom of navigation in the Indian Ocean” (Abe, 2012).

In its 2013 Defense White Paper, Australia defined the “Indo-Pacific strategic arc” as its strategic interest. After India’s Prime Minister Manmohan Singh used the term “Indo-Pacific” in his speech in Japan in May 2013, Japanese Prime Minister Abe delivered a speech in the United States, emphasizing the role of Japan as a leading promoter of rules in the Indo-Pacific region.

During Indian Prime Minister Modi’s visit to Japan in August-September 2014, both countries made significant progress in forming a common vision about the region. During Prime Minister Abe’s subsequent visit to India in December 2015, the “Japan and India Vision 2025” was announced. The two countries pledged to “promote the Free and Open Indo-Pacific
Strategy” under the new and renewed Partnership. They reiterated their commitment to “a peaceful, open, equitable, stable and rule-based order in the Indo-Pacific region and beyond[,]” and their support of the principles of “sovereignty and territorial integrity; peaceful settlement of disputes; democracy, human rights and the rule of law; open global trade regime; and freedom of navigation and overflight” (Ministry of External Affairs, Government of India, 2015).

In November 2016 during India Prime Minister Modi’s visit to Tokyo, the concept of the Free and Open Indo-Pacific (FOIP) Strategy was further developed. Japan and India issued a joint statement, in which they emphasized the core values of “democracy, peace, the rule of Law, tolerance, and respect for the environment” in realizing regional growth, and pledged to improve “connectivity between Asia and Africa through realizing a free and open Indo-Pacific region” (Ministry of External Affairs, Government of India, 2016). The synergy between India’s “Act East” policy and Japan’s “Expanded Partnership for Quality Infrastructure” program under the FOIP Strategy was deemed instrumental for “better regional integration and improved connectivity.”

The vision for bilateral cooperation was not limited to economics. The joint statement also highlighted the security and defense cooperation in transfer of defense equipment and technology, security and defense dialogues, as well as military exercises.

To connect the continents of Asia and Africa through infrastructure projects, India and Japan in May 2017 released the document of the Asia-Africa Growth Corridor (AAGC), which was their response to China’s Belt and Road Initiative (BRI) (Thankachan, 2017). The goal was to ensure that China would not dominate the infrastructure networks from Asia to Africa. The two countries’ interest in the infrastructure connectivity projects in the Indo-Pacific was guided by geopolitical factors as well as economic opportunities. The Asian Development Bank (ADB)
estimated that “[d]eveloping Asia will need to invest $26 trillion from 2016 to 2030, or $1.7 trillion per year,” in infrastructure in order to maintain its growth momentum (Asian Development Bank, 2017).

The Quad in the format of India-Australia-Japan-United States consultations returned in 2017, after the hiatus of a decade. The informal consultative mechanism is to pursue the shared objectives of rule-based order in the Indo-Pacific. Australia’s 2017 Foreign Policy White Paper indicates the country’s interest in maintaining the balance of power in the region and its determination to “realize a secure, open, and prosperous Indo-Pacific.”

While the United State is a latecomer to the concept, the adoption of the idea by the Trump administration gives it a new momentum. In November 2017 at the Asia Pacific Economic Cooperation (APEC) Summit in Danang, Vietnam, U.S. President Donald Trump announced the U.S. FOIP Strategy. The subsequent National Security Strategy (NSS), published in December 2017, explained the background of the U.S. position. According to the NSS (White House, 2017), “a geopolitical competition between free and repressive visions of world order is taking place in the Indo-Pacific region.” To address this challenge, the United States intends to strengthen established alliances and expand partnerships with those who “share respect for sovereignty, fair and reciprocal trade, and the rule of law.”

The Trump administration’s Indo-Pacific strategy reflects both continuity and change with the Obama administration’s strategic rebalancing. While the United States under both administrations finds it important to maintain a strategic presence in Asia, the Trump administration has clearly identified China as a threat to U.S. interests and has engaged in strategic competition with China in the Indo-Pacific region.
Since then, various U.S. officials have provided their interpretations of the policy. In April 2018, Alex Wong, Deputy Assistant Secretary for the Bureau of East Asian and Pacific Affairs, U.S. Department of State, explained the domestic and international components of the FOIP. According to Wong (U.S. Department of State, 2018a), the strategy advocates transparency, anti-corruption, and good governance in domestic politics of various Indo-Pacific countries, and promotes open sea-lanes and airways for free, fair, and reciprocal trade in the region on the international realm.

In June 2018, then Defense Secretary James Mattis discussed with senior Association of Southeast Asian Nations (ASEAN) defense officials the strategic components of the policy, which included the buildup of enforcement capability to monitor maritime borders and interests, the strengthening of the partnership with allies, the advancement of the rule of law and civil society, and the development of infrastructure.

In July 2018, Michael Pompeo, Secretary of State, explained the terminology of “free and open” in greater details (U.S. Department of State, 2018b). According to Pompeo, at the international level, “free” means to protect all nations from coercion by other countries. At the national level, it means “good governance and the assurance that citizens can enjoy their fundamental rights and liberties.” As for “open,” the U.S. position is for all nations to “enjoy open access to seas and airways,” and “the peaceful resolution of territorial and maritime disputes.” Economic openness means “fair and reciprocal trade, open investment environments, transparent agreements between nations, and improved connectivity to drive regional ties.”

On June 1, 2019, the U.S. Department of Defense released the “Indo-Pacific Strategy Report: Preparedness, Partnerships, and Promoting a Networked Region” (IPSR) to explicate its approach to the FOIP strategy. In this detailed strategy document, the United States indicates its
intention to maintain its military preeminence in the region through the pursuit of preparedness, partnerships, and the promotion of a networked region. In terms of preparedness, the United States aims to deploy forward-postured deterrence forces that are combat-credible and prepared to win any conflict from its onset. Concerning partnerships, the United States will strengthen its alliances with Japan, South Korea, Australia, the Philippines, and Thailand. At the same time, it will expand partnerships with “Singapore, Taiwan, New Zealand, and Mongolia.” In South Asia, the United States will operationalize its Major Defense Partnership with India, while pursuing emerging partnerships with Sri Lanka, the Maldives, Bangladesh, and Nepal. It also expects its allies and partners “to shoulder a fair share of the burden of responsibility to protect against common threats.” Finally, the United States seeks to expand these alliances and partnerships into a networked security architecture to deter aggression and uphold the rules-based international order.

The use of the words of “free and open” in Indo-Pacific is distinctly different from its use in the Asia Pacific context (Gyngell 2018). The mission of the APEC forum promotes “free and open trade and investment” to accelerate regional economic integration. The focus is clearly on the economic side. In contrast, the Indo-Pacific strategy emphasizes the normative sense of free and open in political governance.

Taken together, there is significant overlap in the Indo-Pacific vision as proposed by India, Japan, Australia, and the United States. It is a multi-faceted concept that includes three dimensions: security, economics, and governance. Nevertheless, even with the high degree of commonality in each area, regional partners of FOIP also exhibit significant differences, hence creating doubts about the conceptual coherence and institutional cohesiveness of FOIP.
Indo-Pacific as a Military Balancing Strategy

Implicitly or explicitly, the security aspect of the Indo-Pacific strategy aims at dealing with the rise of China. It provides a strategic rationale to balance China in regional security, particularly in the maritime security domain. The concept signals the strategic importance of India as a balancer against China. Traditionally, the security structure in the Asia Pacific centers around the United States in the “hub-and-spokes” security system, with the U.S. security leadership exercised through the bilateral security arrangements it made with its allies such as Japan, Korea, Thailand, Australia, the Philippines, and New Zealand. The incorporation of India in the Indo-Pacific strategy extends the reach of the United States to the Indian Ocean.

In fact, the U.S.-India security cooperation predated the FOIP. In 2012, the United States upgraded its defense cooperation with India through the Defense Technology and Trade Initiative (DTTI). The initiative created opportunities for both countries in co-production and co-development of more sophisticated science and technology projects in defense cooperation. In 2014, the two countries endorsed the U.S.-India Declaration on Defense Cooperation in a mutual commitment to a long-term strategic partnership. The completion of the 2015 Framework for the U.S.-India Defense Relationship intended to guide and expand the two countries’ bilateral defense and strategic partnership for the next 10 years.

Notwithstanding the progress in U.S.-India defense cooperation, India remains tentative in balancing against China (He, 2018). Among the Quad partners, the United States is most open and vocal about China as a potential security threat. Along the lines of the 2017 NSS and 2018 National Defense Strategy (NDS) that described China as a strategic competitor, the IPSR labels China a “revisionist power.” India, Japan, and Australia, though having security concerns with China, all pursue dual-hedge strategy. They engage China in their own way, balancing security interests with economic interests (Basu, 2018).
For example, in response to the security threat posed by China, Japan has increased its military spending under the second Abe administration amid rising public debt and economic stagnation, reversing more than a decade of downward trend. Tokyo’s acquisition of new military capabilities, including Ballistic Missile Defense (BMD) systems, is widely viewed as to defend against not only North Korea, but also China.

Yet, security confrontation is not the full story in the Sino-Japanese relations. Cooperative efforts have been made in recent years to calm tensions between the two countries. Abe and Xi Jinping held a summit meeting during the APEC meeting in December 2017, paving the way for mutual visits, after long gaps in such exchanges. Chinese premier Li Keqiang visited Japan in May 2018, eight years after the 2010 visit by premier Wen Jiabao. Abe visited China in October 2018, seven years after Noda’s visit in 2011. Abe proposed to coordinate with China in developing a free and fair trade system and convert mutual relations from threat to partnership.

Although the United States intends to stay as the dominant military power in the Indo-Pacific region, its growing budget deficits and rising public debt pose as financial constraints. Additionally, there are questions as to the political will, from the public and the top administration, about taking on more security responsibilities around the globe. When the countries in the region do not share the same threat perception, it is difficult to build military alliance in the Indo-Pacific.

Indo-Pacific as an Economic Community

The Indo-Pacific as a region consists of more than 50 percent of the world’s population and many of the most dynamic economies (Pitakdumrongkit, 2019a). Four of the six largest economies are in the region: China, Japan, India, and the United States (U.S. Department of State, 2018b). Approximately 60 percent of the global maritime commerce passes through Asia. Trade and investment in the region have been facilitated by open regionalism (Bergsten, 1997), a
liberal, outward-looking economic order that is inclusive and expansive. The concept has been embraced by regional economic organizations such as APEC and ASEAN and is instrumental to the region’s economic expansion.

The economic growth of China has significantly changed the economic landscape in Asia. In 2010, China overtook Japan as the second largest economy in the world. In 2013, it surpassed the United States as the largest trading country. For many of the countries in Indo-Pacific, China has replaced the United States as their largest trading partners. Deepened economic relations between China and its trading partners make it difficult to form a military alliance against China.

Historically, the United States played the central role as key export market and source of foreign investment. Nevertheless, the trade policies of the Trump administration, which emphasize bilateralism in trade negotiations and defines “fairness” in bilateral trade balance, have diverged from the principle of open regionalism. In addition to the decision to withdraw from the Trans-Pacific Partnership (TPP), Washington has had tariff issues with Japan and Vietnam, and has renegotiated trade agreement with South Korea (Bisley, 2019). Additionally, Washington’s recent trade war with China has also disrupted Asian production networks, particularly for those economies that are part of the China supply chains (Pitakdumrongkit, 2019b).

The Trump administration’s bilateral approach to trade is incompatible with the multilateralism of the region. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive and Economic Partnership (RCEP) are examples how Asian government have attempted to deepen their economic integration through multilateral frameworks. CPTPP, concluded in January 2018, covers a market of 495 million
people, whereas RCEP includes 10 ASEAN countries and six of ASEAN’s dialogue partners (i.e., China, Japan, South Korea, India, Australia, and New Zealand). If countries in the Indo-Pacific region have diverse security interests, it is even more difficult to harmonize their economic interests.

Indo-Pacific as Shared Ideas and Values
The “Indo-Pacific” notion implies shared values and identities. As early as 2005 when East Asian Summit (EAS) was established under the ASEAN framework, it was Japan that worked with Singapore and other ASEAN states to ensure that India, Australia, and New Zealand were included in “principled multilateralism” to balance China’s influence.

In 2006 and 2007, under the first Abe administration, the Japanese Foreign Ministry organized a series of events around the concept of an “Arc of Freedom and Prosperity” to highlight Japan’s commitment to democracy, human rights, and rule of law (Green and Twining, 2008). Additionally, Abe emphasized universal values as he initiated new strategic relations with NATO, Australia, and India. Democracy was the keyword in linking Japan, India, Australia, and the United States in the strategic coalition of the Quad in 2007.

Furthermore, the U.S.-India cooperation is built on not only the rise of India’s material power, but also the liberal and democratic values and institutions. Both were founding members of the United Nations Democracy Fund, launched in 2005, to promote human rights and democratic institutions.

While members of the Quad can claim to share the democratic values and institutions, others in the region, particularly the ASEAN members, are concerned about the exclusionary effect of that claim (Acharya, 2019). Although Japan has repeatedly expressed its support of ASEAN centrality and unity, it has not been made clear what roles ASEAN can play in the process (Koga, 2018). Besides feeling marginalized by Quad in regional cooperation, the
ASEAN members are also concerned about the great power rivalry that the FOIP strategy could cause in the region.

The ASEAN released the ASEAN Outlook on the Indo-Pacific in June 2019 at the 34th ASEAN Summit in Bangkok to officially announce its own vision of the Indo-Pacific concept. The document “envisages ASEAN Centrality as the underlying principle for promoting cooperation in the Indo-Pacific region, with ASEAN-led mechanisms, such as EAS, as platforms for dialogue and implementation of the Indo-Pacific cooperation” (ASEAN, 2019).

Additionally, the ASEAN does not view the Asia-Pacific and Indian Ocean regions as contiguous territorial spaces, but “as a closely integrated and interconnected region.” The Outlook stays clear of the strategic and exclusionary approach, and emphasizes the principles of inclusiveness (including China) and consensus-building. The Outlook reaffirms the Indo-Pacific as a region of “dialogue and cooperation instead of rivalry” and “of development and prosperity for all.”

When the EAS was established in 2005, it had 16 countries from East Asia, Southeast Asia, and South Asia, including 10 members of the ASEAN, plus China, Japan, South Korea, India, Australia, and New Zealand. In 2011, at the Sixth EAS, membership expanded to 18 countries to include Russia and the United States. In the view of the ASEAN, the membership of the EAS in fact embodies the vastness of the Indo-Pacific concept.

In its typical role as consensus-builder, the ASEAN in its Outlook chooses not include the term “free,” which is seen as directed against China, but it references “freedom of navigation,” which is the priority of Washington. The move is consistent with the ASEAN’s principle of the noninterference in the internal affairs of other nations, which rejects the notion of universal values.
The Economic Components of the U.S. FOIP

The economic strategy of the U.S. FOIP under the Trump administration encompasses three elements: trade, investment, and infrastructure (Pitakdumrongkit 2019).

Trade

On trade, the Trump administration advocates the general principle of “free, fair, and reciprocal” trade. To that end, the Trump administration has tried to negotiate better international deals with its trading partners, as seen in the United States-Mexico-Canada Agreement (USMCA, formerly the North American Free Trade Agreement, NAFTA), and the U.S.-Korea FTA (KORUS FTA).

The most recent example is the bilateral trade agreement announced by Abe and Trump on the sidelines of the UN General Assembly meetings on September 25, 2019. In the new agreement, Japan pledges to lower or eliminate tariffs and quotas on U.S. agricultural products, including beef, pork, fruits, and wheat, while the United States promises to reduce tariffs on Japanese industrial products such as certain machine tools and steam turbines (Office of the United States Trade Representative, 2019).

This agreement allows U.S. farmers and ranchers to have greater access to the Japanese market to compete with Australian, Canadian, and European producers, who have benefited from the arrangements under the CPTPP, and the 2019 European Union-Japan Economic Partnership Agreement. This is the Trump administration’s first and only new bilateral deal. It remains to be seen whether this kind of success can be duplicated in the U.S. trade negotiations with other economies.
Investment

To promote investment, the Trump administration emphasizes the improvement of investment climate to encourage entrepreneurship, innovation, and private-sector participation. While investment-led development has fueled economic growth in many Asian economies, foreign direct investment has stagnated in parts of the region due to persistent barriers.

According to Wong, the Untied States supports “more open investment environments, more transparent regulatory structures…so that the region is not only open to more U.S. foreign direct investment, but that indigenous populations, indigenous innovators, [and] indigenous entrepreneurs can take advantage of the investment environments to drive economic growth throughout the region” (U.S. Department of State 2018a).

There is no question that good regulatory regimes attract and facilitate foreign and indigenous investment, especially private-sector investment, and boost entrepreneurship and innovation. What is not clear is the role of the United States in creating those rules, and whether the Trump administration intends to unilaterally establish those rules.

In fact, the Foreign Investment Risk Review Modernization Act (FIRRMA) signed by President Trump in August 2018 may signal a tightening of foreign investment in the United States. The FIRRMA expands the authority of the Committee on Foreign Investment in the United States to review foreign acquisitions of American businesses to determine if they will negatively affect the U.S. national security. Industrial sectors such as aviation, semiconductors, and telecommunications have been placed in a pilot program for closer scrutiny to prevent foreign acquisitions of sensitive information and technological innovation.

Infrastructure

Reacting to China’s BRI and its infrastructure development projects, the United States is concerned about Beijing’s ability to access to key strategic locations via port infrastructure and
to enhance its own energy security with a network of pipelines and energy project. It also questions China’s business model, including financing, transparency, and standards on environmental and social protection (U.S.-China Economic and Security Review Commission, 2018).

The Trump administration intends to forge and strengthen partnerships with regional states to identify and finance high-quality, cost-effective connectivity projects for sustainable development. With the enactment of the 2018 Better Utilization of Investment Leading to Development (BUILD) Act, the United States consolidates its development financial authorities to enhance its connectivity assistance in the Indo-Pacific region. The BUILD Act doubles U.S. government development finance capability to $60 billion and creates the U.S. International Development Finance Corporation (IDFC) to assume the activities of the Overseas Private Investment Corporation, USAID’s Development Credit Authority, USAID’s Enterprise Funds, and the USAID’s Office of Private Capital and Microenterprise. IDFC is granted the extended operating authority to make equity investment. Additionally, the United States is working with Japan, India, and Australia to examine ways to establish collective financing schemes to meet the connectivity needs in Indo-Pacific.

Several initiatives were mentioned by Pompeo in his address at the Indo-Pacific Business Forum (U.S. Department of State, 2018). One of the initiatives is the Digital Connectivity and Cybersecurity Partnership. With a $25 million initial investment, the United States will support communications infrastructure development to help improve partner countries’ digital connectivity. Through technical assistance and public-private partnership, the United States will expand its technology exports while building partner countries’ capacity to address cyber threats.
Another initiative is in the area of energy. The Enhancing Development and Growth through Energy (EDGE) aims to invest $50 million to help Indo-Pacific partner states to import, produce, and deploy their energy resources.

The infrastructure initiative that the United States launched—the Infrastructure Transaction and Assistance Network—is welcome by regional partners. With nearly $30 million in start-up funds, a new interagency body is created to coordinate infrastructure project development, financing, and technical assistance. An Indo-Pacific Transaction Advisory Fund will also be established to provide legal and financial advisory services to partner countries.

**Taiwan-U.S. Economic Cooperation**

On September 12, 2019, the American Institute in Taiwan (AIT), in cooperation with the Ministry of Foreign Affairs, and the Bureau of Democracy, Human Rights, and Labor of the U.S. Department of State, launched the inaugural session of the U.S.-Taiwan Consultations on Democratic Governance in the Indo-Pacific Region. This forum launches a new mechanism for the United States and Taiwan to explore ways to enhance cooperation and pursue joint projects in the region.

Scott Busby, Deputy Assistant Secretary of State and the senior bureau official in the Bureau of Democracy, Human Rights, and Labor in the U.S. Department of State, indicated in the opening remarks that the U.S.-Taiwan consultations aimed to bolster democratic values under the Indo-Pacific Transparency Initiative, part of the governance pillar of the Trump administration’s vision for a FOIP (U.S. Department of State, 2019). Programming under the Transparency Initiative seeks to promote civil society, the rule of law, and transparent and accountable governments across the region, with emphasis on “anti-corruption and fiscal
transparency, democracy assistance, youth and emerging leader development, media and internet freedom, and fundamental freedoms and human rights.”

As a vibrant democracy, Taiwan has a lot to offer in the area of political governance. Additionally, it can also play an active role in the economic component of FOIP. In terms of trade with the United States, Taiwan has consistently enjoyed a favorable trade balance, which expanded to over $14.3 billion in 2017, before dropping to $12.7 billion in 2018. Although the bilateral trade relations remain robust, its overall significance has slightly declined in the U.S. trade with the Indo-Pacific. As seen in Table 1, Taiwan accounted for 5.38% of the U.S. trade with Indo-Pacific in 2009, but the number declined to the lowest point of 4.69% in 2017, before climbing back up to 4.87% in 2018 (Bureau of Economic Analysis, 2018).

Table 1. U.S.-Taiwan Trade in Goods and Services, 2009-2018 (Millions of Dollars)

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<td>US Export to</td>
<td>26,285</td>
<td>36,717</td>
<td>37,907</td>
<td>37,278</td>
<td>38,317</td>
<td>40,083</td>
<td>38,714</td>
<td>38,176</td>
<td>36,205</td>
<td>41,302</td>
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<td>US Import from</td>
<td>33,501</td>
<td>41,880</td>
<td>48,042</td>
<td>46,198</td>
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<td>48,347</td>
<td>48,660</td>
<td>46,947</td>
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<td>Total US-Taiwan</td>
<td>59,786</td>
<td>78,597</td>
<td>85,949</td>
<td>83,476</td>
<td>83,511</td>
<td>88,430</td>
<td>87,374</td>
<td>85,123</td>
<td>86,724</td>
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<td>Trade</td>
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<td>Total US</td>
<td>1,110,517</td>
<td>1,360,034</td>
<td>1,517,244</td>
<td>1,601,749</td>
<td>1,639,206</td>
<td>1,714,441</td>
<td>1,731,020</td>
<td>1,722,455</td>
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<tr>
<td>US-Taiwan Trade</td>
<td>5.38%</td>
<td>5.78%</td>
<td>5.66%</td>
<td>5.21%</td>
<td>5.09%</td>
<td>5.16%</td>
<td>5.05%</td>
<td>4.94%</td>
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Based on the recent example of the Japan-U.S. trade deal, it is quite likely that, if Taiwan is to engage in bilateral trade negotiations with the United States, the agricultural products will be on the agenda. The economic despairs experienced by American farmers and producers from the U.S.-China trade war will add to the political pressure on the Trump administration to seek
maximal concessions from Taiwan. Taiwan needs to plan ahead to determine the political and economic trade-offs in bilateral trade talks with the United States.

In the area of investment, the second component of the Trump administration’s Indo-Pacific economic strategies, there exists a good potential for Taiwan and the United States to work together.

Taiwan has underperformed in attracting foreign direct investment (FDI), when compared with neighboring economies. Based on the FDI data compiled by the United Nations Conference on Trade and Development (United Nations Conference on Trade and Development, 2019), Taiwan’s annual inflow of FDI ranks last among the Asian newly industrialized economies (NIEs).

As indicated in Chart 1, from 2009 to 2018, the pattern has been clear and consistent. Each year, Hong Kong received most of the FDI, followed by Singapore, South Korea, and Taiwan, in that order. Taiwan’s performance is also mediocre, when compared with the ASEAN 5, as seen in Chart 2.

At the bilateral level, the direct investment from the United States in Taiwan has been in decline. As of 2018, the U.S. direct investment position/stock in Taiwan reached $17.5 billion. From 2009 to 2018, however, the U.S. investment stock in Taiwan, as compared to its position in Indo-Pacific, has steadily decreased. As seen in Table 2, in 2009, Taiwan accounted for almost 4% of the U.S. direct investment in Indo-Pacific; in 2018, it was below 2%. Nevertheless, Taiwan investment position in the United States has been on an upward trend, in absolute and relative terms. In 2018, Taiwan accounted for 1.49% of the total Indo-Pacific investment in the United States, an increase from 1.20% in 2009.
Table 2. U.S.-Taiwan Direct Investment Position/Stock, 2009-2018, (Millions of Dollars)

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<tr>
<td>U.S. in Taiwan</td>
<td>19,894</td>
<td>22,188</td>
<td>16,073</td>
<td>17,546</td>
<td>15,307</td>
<td>15,942</td>
<td>15,295</td>
<td>15,935</td>
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<td>Taiwan as % of U.S.</td>
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<tr>
<td>in Indo-Pacific</td>
<td>3.96%</td>
<td>3.89%</td>
<td>2.72%</td>
<td>2.61%</td>
<td>2.16%</td>
<td>1.96%</td>
<td>1.81%</td>
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<td>Taiwan in U.S.</td>
<td>3,885</td>
<td>4,642</td>
<td>5,004</td>
<td>5,039</td>
<td>6,135</td>
<td>6,107</td>
<td>6,889</td>
<td>7,573</td>
<td>8,058</td>
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<td>Indo-Pacific in U.S.</td>
<td>323,404</td>
<td>346,605</td>
<td>395,241</td>
<td>428,016</td>
<td>483,304</td>
<td>532,491</td>
<td>579,708</td>
<td>627,889</td>
<td>684,598</td>
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<tr>
<td>Indo-Pacific in U.S.</td>
<td>1.20%</td>
<td>1.34%</td>
<td>1.27%</td>
<td>1.18%</td>
<td>1.27%</td>
<td>1.15%</td>
<td>1.19%</td>
<td>1.21%</td>
<td>1.18%</td>
<td>1.49%</td>
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As of 2018, the U.S. direct investment position in Taiwan was divided between services (41%) and manufacturing (35%). Wholesale trade and finance were the leading areas of the U.S. service investments, whereas computers/electronic products and chemicals were the focus of the manufacturing investments (Bureau of Economic Analysis, 2018). In contrast, 41% of the Taiwan investment position in the United States was in manufacturing, and 39% in services.

What accounts for Taiwan’s underperformance in attracting FDI? On the one hand, in the age of regional production networks and global value chains, FDI is closely associated with the production networks. Intra-industry trade induced by investment along the line of production networks deepens regional integration beyond traditional trade, which sends finished products across borders. Trade and investment are not separate phenomena anymore; they should be considered holistically (Baldwin 2013). Foreign businesses have expressed concerns over Taiwan’s long-term energy policy in light of plans to phase out nuclear power by 2025 and increase use of fossil fuels and renewables, and the effect of stricter labor regulations on businesses’ need for a flexible workforce (International Trade Administration, 2018).
On the other hand, when FDI is tied to services, as is the case of U.S. investment in Taiwan, then the quality of regulatory regimes and the transparency of governing process become important. In this regard, the Global Competitiveness Index compiled by the World Economic Forum helps identify the areas of Taiwan’s perceived weakness. Table 3 shows Taiwan’s rank among the first pillar institutions from 2009 to 2017. Evidently, Taiwan has weak spots in its institutions, particularly in the areas of judicial independence and in the efficiency of its legal framework (in settling disputes and challenging regulations). Also notable is the lack of public trust in politicians, government spending, and government regulation. Institutional reforms in these areas will not only be vital for the future of Taiwan’s economic development, they will also help Taiwan stay competitive in trade and investment.

In recent years, Taiwan has launched an initiative to promote economic growth by increasing domestic investment and FDI. To attract FDI, the Taiwan government has convened a series of inter-ministerial meetings to lower investment barriers and to introduce new rules to establish a modern regulatory framework.

To address foreign businesses’ concerns, the central authorities such as the National Development Council (NDC) have regularly met with the American Chamber of Commerce in Taipei and other foreign business groups to seek resolution of their concerns.

Finally, in the area of infrastructure, the third element of the FOIP, Taiwan can also benefit from regional cooperation. The Forward-Looking Infrastructure Development Program launched in July 2017 aimed to improve Taiwan’s infrastructure in the following areas: rail transport construction, water improvement, green energy development, digital development, urban and rural development, childcare environment improvement, food safety improvement, and human resources development. The government has planned to increase corporate tax and
dividend taxes in order to fund this plan at the risk of lowering Taiwan's attractiveness for investors. Taiwan should consider the possibility of tapping into the multilateral infrastructure financing scheme offered through the FOIP and should provide technical assistance to other regional partners when opportunities arise.

In conclusion, while the Trump administration has a clear vision on the multi-faceted FOIP, it does not have a clear institutional platform to implement all elements of the FOIP. The fact that Taiwan does not belong to a particular regional grouping offers it some flexibility and an unique opportunity to create a bilateral forum with the United States, as in the recent case of the U.S.-Taiwan Consultations on Democratic Governance. In addition to the democratic governance, the economic elements of the FOIP in fact present another productive opportunity for Taiwan to link the United States, particularly in the areas of investment and infrastructure. Exploring joint projects with the United States and other regional partners can help address some of the economic bottlenecks Taiwan has encountered and lay the foundation for future growth and development.
### Table 3. Taiwan’s Global Competitiveness Index: Institutions, 2009-2017

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<td>36</td>
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<td>Efficiency of Legal Framework in Challenging Regulations</td>
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