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business interests. But it is difficult to visualize these interests coalescing to form a formidable force in support of an ROC FTA. United States agricultural producers probably would perceive an open ROC market as a significant new opportunity. However, compared to most other Asian countries, the ROC is already relatively open to United States agricultural exports. Accordingly, the practical potential for additional agricultural exports might be limited.

Finally, the appeal to the United States of an FTA with the ROC might be dampened by the belief that the United States can achieve increased exports to, and investment in, the ROC without yielding the concessions that such an agreement would necessarily require. The ROC has been rapidly opening its domestic market even without such agreements. Furthermore, the ROC may be uniquely vulnerable to unilateral pressure by the United States aimed at securing trade concessions, because the ROC is politically isolated and dependent upon the United States for protection of its security interests. However unfortunate it may be from the ROC's perspective, the United States' desire for greater access to ROC markets is much more likely to be embodied in political pressure on the ROC than in support for a United States-ROC FTA.

## An Initial Perspective on the United States-Republic of China Free Trade Agreement

DOUGLAS T. HUNG\*

The Republic of China ("ROC") greatly values its long-lasting, cordial relationship with the United States. In particular, the two countries enjoy a mutually beneficial commercial relationship based upon earnest trust and goodwill.

For several years, the ROC has been contemplating various ways to improve bilateral trade relations with the United States, its major and most important trading partner. For instance, the ROC has been exploring ways to protect this trade relationship from the impact of political swings in both countries. The ROC recognizes the need for a

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more creative response to the perennial problems between itself and the United States. Rather than restricting imports, both sides would be better served by liberalizing their respective trade policies.

The ROC's commitment to liberalizing trade is sincere. According to the "Detailed Action Plan for Strengthening Economic and Trade Ties with the United States," promulgated by the Council for Economic Planning and Development of the Executive Yuan, the ROC has already taken steps to increase imports from the United States. This measure will continue to reduce the ROC's trade surplus. The ROC government understands that the solution to the persistent ROC-United States trade imbalance requires policy adjustments within several sectors of the economic structure and believes its willingness to negotiate a Free Trade Agreement ("FTA") with the United States evidences its commitment in this area.

The ROC believes an FTA with the United States should follow the model set by the agreements between the United States and Israel and the United States and Canada. Over a period of time, such agreements will remove all tariff and non-tariff barriers between the two signatory countries. The arrangements between the ROC and the United States should include provisions for the free flow of commerce, investment, services, and the opportunity for negotiations regarding similar practices in intellectual property rights protection, licensing, and standards.

Some members of the United States Congress seem to believe that the United States is not getting a fair share of trade from the ROC. The ROC, however, maintains that this perception is inaccurate. The ROC's proposal to consider the establishment of an FTA with the United States demonstrates the sincerity of its commitment to liberalize its market with its major trading partner.

What would both sides gain from such an agreement? First, trade—which amounted to about \$36 billion last year—would increase significantly if duties and non-tariff barriers were removed. I would expect that investment by United States business in the ROC would increase substantially, as would joint ventures between ROC and United States businesses. Furthermore, the ROC's labor force is well-educated, highly skilled, and would accept a wage rate considerably below the prevailing wage rate in the United States. Thus, the ROC's economic structure could complement that of the United States. Moreover, an FTA would enhance the benefits to both sides.

Despite its small size (about one-third the size of Ohio), the ROC

is the fourth largest importer of United States goods. In 1988, imports from the United States accounted for 26.2% of all ROC imports. Eliminating all trade barriers, which currently hinder United States shipments, would increase this share significantly.

The ROC's economy is ready to absorb a higher volume of imports. Its per capita income was almost \$6,000 in 1988 and is expected to increase at the rate of 7% in 1989. Furthermore, the ROC has an ample foreign currency reserve to finance increased imports. These reserves are now estimated at around \$75 billion, an amount which can support a tremendous volume of consumer demand.

In addition to increasing consumer demand for imports, the ROC has plans to implement major projects over the next several years. The authorities in Taipei have recently appropriated about \$4 billion for major projects, including rapid transit and telecommunications systems, port facilities, highways, environmental protection, and hospital facilities. These projects will require an increase in the amount of imports. An FTA would give United States bidders on these projects a substantial edge over international competitors.

Currently, the United States is the second largest supplier of imports to the ROC market; Japan is the largest, with nearly 30% of the market. At the United States government's request, the ROC has significantly reduced its tariffs. Tariff cuts on 4,738 items in 1989, alone, lowered the average nominal tariff rate to under 4.7%. However, multilateral tariff cuts benefit Japanese exports more than United States exports, since the Japanese already supply more goods to the ROC. An FTA between the United States and the ROC, which would lower tariffs on a bilateral basis, would increase the relative competitiveness of United States exports to the ROC. Despite its small size, the ROC could be a significant and lucrative market for United States exports.

United States agricultural exports to the ROC are already quite substantial. Nevertheless, the ROC is continually pressured to liberalize trade barriers. Admittedly, agricultural goods generally face high tariffs, as well as other import restrictions in the ROC. It should be noted, however, that the United States government also intervenes in agricultural trade in efforts to improve the competitiveness of United States agricultural products abroad. An FTA would provide significant opportunities for an increase in agricultural trade. Expected gains in this area would go primarily to United States farmers by giving them a competitive advantage in marketing their farm prod-

ucts. Therefore, although the ROC is already one of the largest importers of United States agricultural products in the world, an FTA would increase United States agricultural shipments even further.

Because the ROC's tariffs are generally higher than the tariffs of the United States, the ROC would have to liberalize further in order to implement an agreement with the United States. The average ROC tariff is just under 13%, while the average tariff on United States imports is about 3.5%. Of course, the agreement would not take effect overnight; both sides would have a timetable for tariff and non-tariff liberalization. Additionally, the agreement should include special provisions for handling so-called "import sensitive" items on both sides.

The unusually small size of most ROC firms would preclude any major export drive which might result from trade liberalization under an FTA. This significantly contrasts with both Japan and the Republic of Korea, whose export sectors rely heavily on large firms and export trading companies. Furthermore, a United States-ROC bilateral FTA would have to include a provision enforcing the rules of place-of-origin, so as to ensure that other countries do not take advantage of the agreement through transshipments.

In addition to increasing trade, an FTA would foster increased United States investment in the ROC. The ROC's well-educated labor force, most notably in the engineering and computer fields, provides a good incentive for investment and joint research and development projects between the United States and ROC businesses. Moreover, substantial revisions in the laws regulating and protecting intellectual property rights will further enhance United States investment opportunities. Also, the ROC's location gives United States investors an excellent position from which to trade with other rapidly growing markets in the Far East, particularly Japan.

An FTA between the United States and the ROC would bestow yet another benefit by providing a model for the multilateral trade agreement currently being negotiated in the Uruguay Round. Most likely, an agreement between the United States and the ROC would include services, an area in which the United States has repeatedly expressed the desire to negotiate at the Uruguay Round. Concluding an FTA with an important Asian trading partner such as the ROC should aid United States efforts in multilateral trade negotiations. Furthermore, an agreement regarding services could significantly improve the balance of trade, because the United States has greater ex-

pertise and a relative cost advantage in this area. In particular, United States exports of banking services, motion pictures, shipping, leasing, and advertising likely would increase. The United States is extremely competitive in these areas, and liberalizing the ROC market would provide significant opportunities for United States service industries. Thus, the ROC could become a very significant financial center for United States investment in Asia.

What would an agreement mean to the ROC? Unquestionably, there is a risk in competing with the strongest economic power in the world. However, due to its limited natural resources, the ROC has no choice but to continue to trade. Therefore, the ROC is willing to take the risk of reducing trade barriers with the United States. In fact, the ROC welcomes the opportunity to trade on a fair and competitive basis with the United States. Currently, the ROC is subject to the vagaries of trade policy development in the United States, even though it is ready to accept all of the obligations and rights of a fully developed bilateral trading partner.

The ROC government wants to avoid the political swings which negatively affect its trade flows. Additionally, it wants to avoid political fallout which might result from any misunderstanding of the ROC's developing economy. The ROC also wants to avoid future trade-related complaints which would only serve to exacerbate problems, making an equitable and mutually acceptable solution to both parties all the more difficult. An FTA would mitigate these problems.

The ROC is prepared for the United States to extensively review the ROC's economy and trade practices, just as it has done with Israel and Canada. The ROC will also investigate the United States economy and trade practices in order to better understand its complexities. Furthermore, as in the Israeli and Canadian agreements, the ROC is willing to discuss special provisions in the agreement for sensitive products.

The ROC understands and respects the United States' commitment to strengthening the multilateral trading system. The ROC has both contributed to and benefitted from this system. However, the ROC is not a member of the General Agreement on Tariffs and Trade ("GATT"). Therefore, when the Uruguay Round begins, or alternatively, when it finally concludes, the United States and the ROC would still need to negotiate a GATT-parallel bilateral trade agreement, similar to the agreement generated after the Tokyo Round.

The United States and the ROC should set their mutual goals for these bilateral discussions at a higher level from the outset.

Furthermore, I believe that FTA discussions between the United States and the ROC could cause some of the United States' trading partners in the Far East to take trade policy discussions with both countries more seriously. Consequently, a bilateral FTA between the United States and the ROC would make both countries more competitive in Asia and elsewhere.

In summary, the benefits of a Free Trade Agreement greatly outweigh the burdens for both countries. From the ROC's standpoint, the initiative to create such an agreement should be seen as a reaffirmation of the ROC's serious commitment to a free trade system. From the United States' perspective, the agreement would aid the Executive and Congress in further opening markets for United States exports.