

THE KENTUCKY-TAIWAN ECONOMIC RELATIONSHIP

Kentucky and Taiwan, officially known as the Republic of China ("ROC"), have enjoyed a cordial economic and cultural relationship since the 1980s. In fact, former Gov. John Y. Brown, Jr., established a sister-state partnership with Taiwan more than a quarter of a century ago in 1982.

Since that time, Taiwan has become one of Kentucky's most important trading partners and economic allies on the international stage. Numerous corporations with ties to Kentucky have established presences in Taiwan. Likewise, several Taiwanese companies have realized the benefits of locating business operations in the Commonwealth.

As Secretary of State, I have sought to strengthen Kentucky's relationship with Taiwan through trade missions and continuous work with the Taipei Economic and Cultural Representative Office ("TECRO"). In 2013, just more than one year into my first term as Kentucky's chief business official, I traveled with a United States delegation of Secretaries of State throughout Taiwan. This mission allowed me to gain a better understanding of and examine the Kentucky-Taiwan relationship.

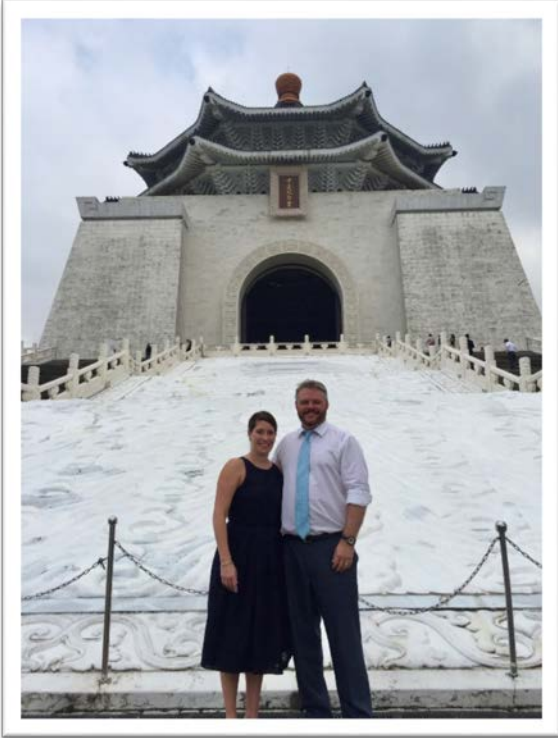


2013 Delegation to Taiwan



2017 Delegation to Taiwan

Most recently, in June 2017, I traveled to Taiwan, meeting with government, business, and cultural leaders to help grow and demonstrate the importance of our relationship. I was one of four Secretaries of State nationwide selected to participate in the delegation, joining Tom Schedler (Louisiana), Mac Warner (West Virginia), and Wayne Williams (Colorado). TECRO, a Taiwanese government agency with offices throughout the U.S. that facilitates mutually beneficial relations between the states and Taiwan, sponsored the trip.



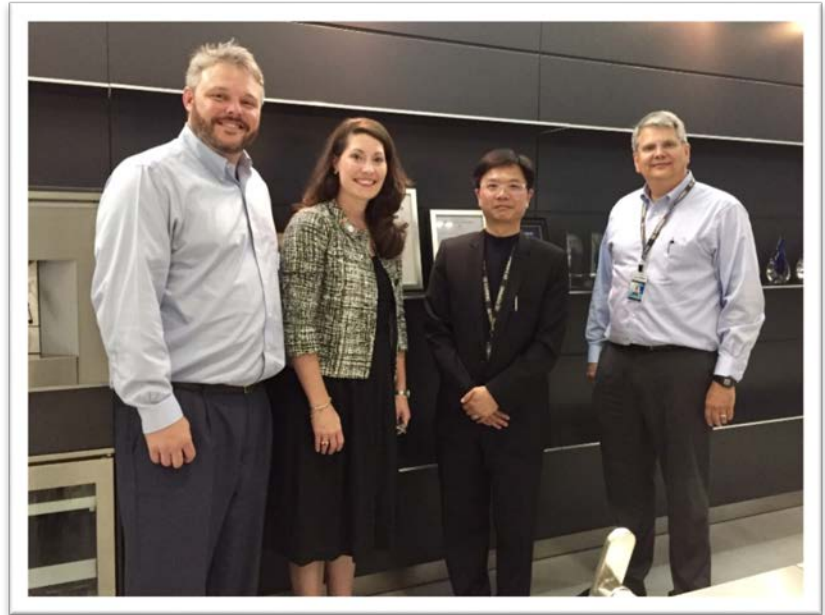
Secretary & Mr. Grimes visited Chiang Kai-shek Memorial Hall (above); Sun Moon Lake near Taichung (top right); and Lunghshan Temple of Manka (bottom right), among other sites.

During the weeklong trip, our delegation traveled to Taipei, the Taiwanese capital, as well as the surrounding areas. Our group learned more about Taiwan's industry, infrastructure, and rich history and culture. In addition, I met with representatives of companies that share ties with both Taiwan and Kentucky, exploring ways to expand existing Kentucky businesses and encourage more companies to make the Commonwealth their home.

Growing Economic Relationships

Kentucky, in various ways, could not be more unlike Taiwan. Kentucky is a land-locked state in the middle of the North American continent while Taiwan is an island less than half the sizeⁱ of the Commonwealth and situated on the other side of the globe. Though smaller in landmass, Taiwan's population of approximately 23.52 millionⁱⁱ is more than five times Kentucky's 4.44 million residents.ⁱⁱⁱ

However, our economies are tightly connected. Taiwan is Kentucky's sixth largest export partner in Asia, accounting for approximately \$174 million in exports in 2015.^{iv} Many companies, from YUM! Brands to Ashland, Inc., have strong presences in both locations. Importantly, Taiwan provided critical dollars in aid to Kentucky during a tornado outbreak that devastated parts of Eastern Kentucky in 2012.



Secretary Grimes met with officials from Sunspring Metal Corp.

Taiwan's economy supports important industries here in the Commonwealth by demanding millions of dollars of imports from Kentucky's bourbon and spirits, oil, and restaurant industries. Because Taiwan is an island, international trade largely supports its economy, and its leaders are working to diversify their trading markets with the United States, India, and Japan.

"Trade is our lifeline," Chern-chyi Chen, Deputy Director General of the Taiwan Bureau of Foreign Trade, told our delegation. Other officials we met with echoed that sentiment and highlighted Taiwan's Global Trade Forum on June 15, 2017, to mark the 70th anniversary of the Importers and Exporters Association of Taipei.

In meetings with the Council of Agriculture and the Department of North American Affairs, our delegation learned more about Taiwan's rich agricultural history which Kentucky shares. More than five percent of Taiwan's workers are involved in the agriculture industry, helping to produce the island's major products of rice, chicken, and pork. Officials are focused on renewal of idle land and support young farmers with incentives and training programs.

Kentucky corn and soybean farmers, as part of an agreement between the Commonwealth and Taiwan, are currently participating in a two-year export deal to support Taiwan's agriculture industry.

To help facilitate growth in our economic relationship, I helped TECRO officials secure a reciprocal driver's license agreement with the Commonwealth. This deal, signed in early 2017, is key to ensuring positive continued relations.

Sunspring, a Taiwanese company that is the top global producer of zinc products, made a significant investment in Henderson, Ky., over the last decade. Sunspring officials, with whom I have met twice in Taiwan and maintain a continuous relationship here in Kentucky, are seeing great progress with their new facility in Taiwan and are encouraged by future possibilities for their growth in the United States, including Henderson. Sixty-five percent of the company's business comes from North America.



Secretary Grimes met with Kentuckian and Taihu Brewing cofounder Robert Babbage.

Kentuckian Robert Babbage, co-founder of Taihu Brewing, is proudly representing the Commonwealth in Taiwan. He and his partners endeavor to make Taiwan the craft beer capital of Asia with their young and thriving brewing business. Taihu, just more than two years old, is bottling its own brews, importing and distributing, and operating several retail locations. I enjoyed visiting with Robert, the son of former Kentucky Secretary of State Bob Babbage, and seeing his retail locations and expanded brewing capacity. The similarities in the craft brewing booms in Kentucky and Taiwan are remarkable. Robert and his team are leading the way with a bottling capability of nearly 6,000 bottles per hour.

In addition to encouraging other companies to locate in both Kentucky and Taiwan, the Commonwealth's sister-state relationship with ROC should be leveraged to assist Kentucky businesses in expanding into the global marketplace. Kentucky officials should give

serious consideration to joining the other U.S. states that have opened a trade office in Taiwan to help facilitate trade growth there and in Southeast Asia. With Taiwan's protections for intellectual property, forward-thinking attitude toward economic development, and education-based society, it would be a natural fit for Kentucky.

The benefits of a trade office are apparent with a \$9 billion investment by Taiwanese company Formosa Petrochemical Corp. in Louisiana, a state that opened an office in Taiwan two decades ago. The estimated annual cost of a Kentucky office is \$120,000.

Notably, Taiwan is the world's fourth largest information and communications technology hardware producer. In fact, Taiwanese IT companies install 75 percent of global personal computers. Kentucky should seek this significant investment from Taiwan.

Promoting Tourism

With its long heritage and island geography, tourism plays a significant role in Taiwan's economy. It received more than 10 million international visitors in 2016.^v But over the last year, Taiwan's tourism industry has seen declining revenue causing concern and uncertainty in economic outlook with some blaming a fall in tourists from mainland China.^{vi}



Sun Moon Lake, near Taichung.

Our delegation spent part of our trip at Sun Moon Lake in the Taichung region of the island, an admired scenic destination. The lake is Taiwan's largest body of water, and the Taiwanese indigenous Thao tribe lives in the area surrounding the lake.

Kentucky's abundant natural beauty – like Taiwan's – also holds significant potential for a growing tourism industry.

I have supported adventure tourism prospects in the Commonwealth and have personally sought legislation to help turn Eastern Kentucky into “Kentucky’s Playground,” a destination area for adventure-seekers. Activities like horseback riding, hiking, rock climbing, bicycling, hunting and fishing, and ATV trail riding already generate an estimated half-billion dollars in state and local tax revenue, and adventure tourism is an increasingly important slice of Kentucky’s tourism appeal.^{vii}

Kentucky also has exciting historical and cultural attractions. From significant civil war sites,^{viii} to the Country Music Highway and folk arts and crafts,^{ix} to the renowned Bourbon Trail,^x Kentucky truly offers something for everyone.

Advanced Infrastructure

Taiwan's infrastructure is a vital means for tourism and trade. The island is home to two international airports, seven international harbors, and complete railway systems throughout enabling the transportation of citizens and tourists alike. Our delegation used high-speed rail, nearly non-existent in the United States, to make the visit to Sun Moon Lake from Taipei.



The delegation took the Taiwan High Speed Rail to Sun Moon Lake.

Kentucky, in contrast, is highly reliant on ground transportation, roads, and bridges that need repair.^{xi} While Kentucky is considered an air logistics hub for North America, if we are to attract businesses, foreign or domestic, we must further make improvements to other parts of our infrastructure. Securing new industry and business in the Commonwealth cannot be completely realized until we fully utilize transportation via air, rail, road, and waterway.

Ninety-eight percent of the island's energy resources are imported, Taiwan Bureau of Energy officials revealed during our visit. Coal makes up about 45 percent, while nuclear power makes up most of the rest of Taiwan's energy usage. The island is focused on moving toward renewable sources of energy and hope to reduce coal to 30 percent overall, while investing in clean coal technology. Taiwan is also exploring using more natural gas resources. It is important for Kentucky to not only monitor Taiwan's efforts, but be part of their discussions. Although Kentucky's location makes transporting coal to Taiwan cost-prohibitive, the island's determination to diversify its energy portfolio may lead to other beneficial opportunities for the United States and the Commonwealth.

CONCLUSION

As Secretary of State, I have worked diligently to strengthen our relationship with Taiwan. A prime example is the enactment of the reciprocal driver's license agreement, helping Kentucky lead the way among the states.

This mission to Taiwan affirmed for me that even though the Kentucky-Taiwan economic relationship is strong, there are more ways to enhance our bond for mutually beneficial economic growth. We have room to grow when it comes to leveraging our economic relationship with Taiwan to create good jobs in Kentucky, attract investment dollars to Kentucky, and expand markets for Kentucky businesses. A vital tool would be the opening of a Kentucky trade office in Taiwan and identifying a leader to help cultivate and facilitate business relationships. I am confident this small investment would immensely benefit Kentucky industries in the long-term.

As our delegation visited the Chiang Kai-shek Memorial Hall, I noted inscribed on the wall inside the main hall the Chinese symbols for science, democracy, and ethics – three attributes that bond our two states. If Kentucky and Taiwan each remain committed to these principles, I am convinced our relationship will lead to prosperous growth for both of our states.

ⁱ <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2147rank.html> (last accessed June 9, 2017).

ⁱⁱ <https://tradingeconomics.com/taiwan/population> (last accessed June 9, 2017).

ⁱⁱⁱ <https://www.census.gov/quickfacts/table/PST045216/21> (last accessed June 9, 2017).

^{iv} <http://www.ustaiwanconnect.org/US-Taiwan-Relations/Trade/States/Kentucky-and-Taiwan> (last accessed June 9, 2017).

^v http://admin.taiwan.net.tw/statistics/year_en.aspx?no=15 (last accessed June 9, 2017).

^{vi} <http://time.com/4574290/china-taiwan-tourism-tourists/> (last accessed June 9, 2017).

^{vii} <http://www.sos.ky.gov/secdesk/Pages/record.aspx> (last accessed June 9, 2017).

^{viii} http://www.kentuckytourism.com/kentucky_civil_war/about.aspx (last accessed June 4, 2015).

^{ix} http://www.kentuckytourism.com/things_to_do/music_arts.aspx (last accessed June 4, 2015).

^x <http://www.kentuckytourism.com/dining/bourbon.aspx> (last visited June 4, 2015).

^{xi} <http://www.infrastructurereportcard.org/kentucky/kentucky-overview/> (last visited June 4, 2015).