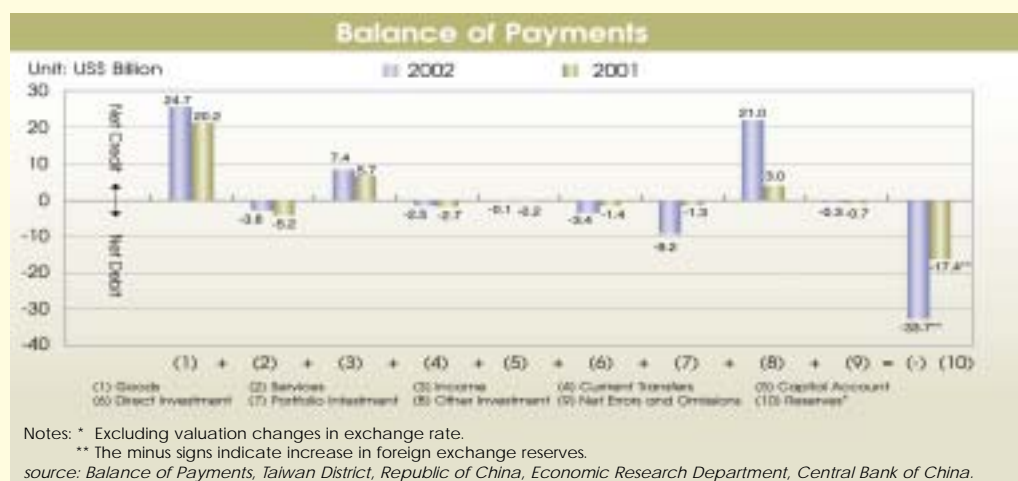


2. BALANCE OF PAYMENTS *

The balance of payments was characterized by a large current account surplus and a marked net inflow in the financial account in 2002. The current account surplus registered a record-high figure of US\$25,730 million, which was up from the previous year's US\$17,921 million and accounted for 8.9 percent of GNP. The capital account registered a deficit of US\$139 million. The financial account exhibited a net inflow of US\$8,386 million, up from US\$329 million of the previous year. As a result, the foreign reserve assets held by the Bank increased by US \$33,664 million, the highest annual increase on record.

Marked Increase in Current Account Surplus

The components of the current account include goods, services, income and current transfers. The current account surplus widened in 2002 mainly as a result of the increase in the goods trade surplus and the decrease in the deficit on the services account.



* As from 1997, the balance of payments statistics published by the Bank are in accordance with the concepts and definitions contained in the fifth edition of the IMF Balance of Payments Manual.

(1) Goods

Exports and imports, when calculated on a balance of payments basis, rose by 6.4 percent and 3.2 percent, respectively. The value of exports increased by US\$7,803 million to US\$129,882 million, mainly because of strong demand associated with higher economic growth in the East Asian economies such as Hong Kong, Mainland China and South Korea. The value of imports rose by US\$3,286 million to US\$105,184 million, mainly due to the rising derived demand for raw materials, semi-products and parts arising from exports. The trade surplus on goods increased to US\$24,698 million for the year 2002, an increase of 22.4 percent from the previous year.

As indicated by the R.O.C. Customs' statistics, exports to Hong Kong increased by 14.5 percent in 2002, while its share of total exports increased to 23.6 percent from 21.9 percent in

Balance of Payments

Unit: US\$ Million

	2002	2001
A: Current Account	25,730	17,921
Goods: exports f.o.b.	129,882	122,079
Goods: imports f.o.b.	-105,184	-101,898
Balance on Goods	24,698	20,181
Services: credit	21,385	19,495
Services: debit	-25,217	-24,700
Balance on Services	-3,832	-5,205
Income: credit	10,337	9,327
Income: debit	-2,983	-3,648
Balance on Income	7,354	5,679
Current transfers: credit	2,622	2,607
Current transfers: debit	-5,112	-5,341
Balance on Current transfers	-2,490	-2,734
B: Capital Account	-139	-163
Total, Groups A plus B	25,591	17,758
C: Financial Account	8,386	329
Direct investment abroad	-4,886	-5,480
Direct investment in Taiwan, R.O.C.	1,445	4,109
Portfolio investment assets	-15,553	-12,427
Portfolio investment liabilities	6,368	11,136
Other investment assets	11,827	-1,057
Other investment liabilities	9,185	4,048
Total, Groups A through C	33,977	18,087
D: Net Errors And Omissions	-313	-734
Total, Groups A through D	33,664	17,353
E: Reserves and Related Items*	-33,664	-17,353

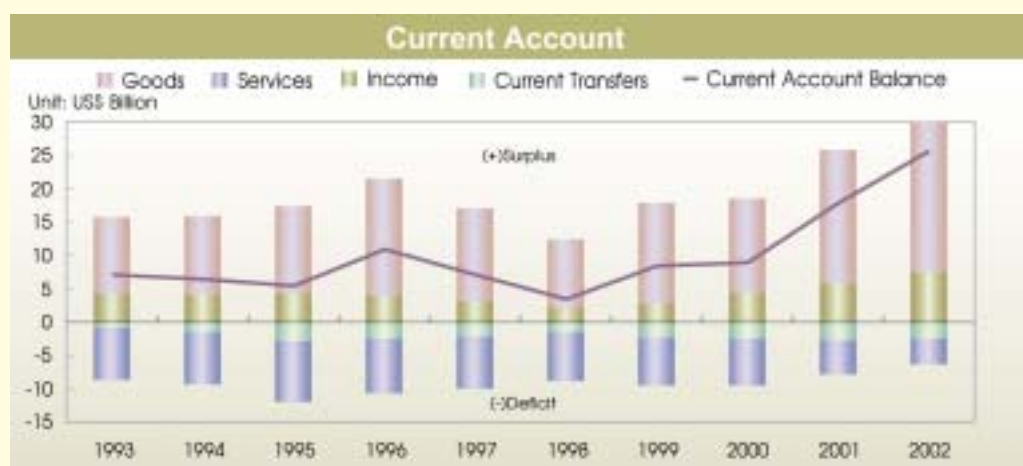
Note: * Excluding valuation changes in exchange rate.

source: Balance of Payments, Taiwan District, Republic of China, Economic Research Department, Central Bank of China.

the previous year. Exports to Mainland China increased by 109.8 percent, while its share of total exports increased to 7.6 percent from 3.9 percent. Exports to Hong Kong and Mainland China combined together accounted for 31.2 percent of total exports, up 5.4 percentage points from the previous year. Hong Kong and Mainland China together remained Taiwan's largest export market in 2002.

According to Cross-Strait Trade Statistics published by the Board of Foreign Trade under the Ministry of Economic Affairs, the value of Taiwan's exports to Mainland China including those transited via Hong Kong, totaled US\$33,059 million for the year, with a growth rate of 37.4 percent when compared with the previous year. The marked growth was attributable to Mainland China's stronger domestic demand, lowering import tariffs and removal of import controls, and rising demand from Taiwanese firms operating in Mainland China. This increase was quite significant when compared with other major export markets, and the share of exports to Mainland China increased by 5.7 percentage points to 25.3 percent. The three major export items to Mainland China were electrical machinery and related parts, mechanical appliances and related parts, and plastic articles.

Imports from Hong Kong declined by 6.0 percent, and its share of total imports slightly declined to 1.5 percent in 2002. Imports from Mainland China rose by 34.7 percent, and its share of total imports rose to 7.1 percent in 2002. The share of imports from Hong Kong and Mainland China combined together increased from 7.2 percent in 2001 to 8.6 percent in 2002. This increase was attributable to the increased demand for electrical machinery and related



parts, and in consumer goods, which resulted from wider opening of imports from Mainland China after both sides joining the WTO. The bilateral trade surplus with Hong Kong and Mainland China climbed up to US\$31,130 million, reflecting a 29.9 percent increase. Hong Kong and Mainland China remained the largest source of Taiwan's trade surplus.

As indicated by the R.O.C. Customs' statistics, exports to the U.S. decreased by 3.2 percent in 2002. The share of exports to the U.S. as a proportion of total exports decreased to 20.5 percent from 22.5 percent in 2001. Imports from the U.S. declined by 0.5 percent, and its share of total imports decreased from 17.0 percent in 2001 to 16.1 percent in 2002. Because the decrease in exports was more than that in imports, the bilateral trade surplus with the U.S. declined to US\$8,630 million, reflecting an 8.4 percent fall. The U.S. remained the second largest source of Taiwan's trade surplus.

Regarding bilateral trade with Japan, the weak performance of the Japanese economy and the oversupply in the global IT industry caused exports to Japan to decrease by 6.0 percent in 2002, and the share of exports to Japan fell to 9.2 percent from 10.4 percent a year earlier. The two major export items to Japan were mechanical appliances and electrical machinery equipment. Imports from Japan increased by 5.6 percent compared with the previous year,

Direction of Trade in Goods by Country

Unit: %

	2002			2001		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China & Hong Kong	40,816	31.2	28.7	31,707	25.8	-10.8
U. S. A.	26,769	20.5	-3.2	27,654	22.5	-22.2
Europe	18,554	14.2	-6.3	19,808	16.1	-16.5
Southeast Asia*	15,527	11.9	6.4	14,589	11.9	-19.2
Japan	11,992	9.2	-6.0	12,759	10.4	-23.1
Others	16,984	13.0	3.9	16,349	13.3	-16.5
Total	130,642	100.0	6.3	122,866	100.0	-17.2
Imports						
Japan	27,291	24.2	5.6	25,848	24.1	-33.0
U. S. A.	18,136	16.1	-0.5	18,229	17.0	-27.4
Southeast Asia*	16,555	14.7	3.8	15,955	14.9	-21.0
Europe	14,646	13.0	-2.3	14,989	14.0	-21.2
Mainland China & Hong Kong	9,686	8.6	25.0	7,751	7.2	-7.8
Others	26,277	23.4	7.4	24,465	22.8	-14.8
Total	112,591	100.0	5.0	107,237	100.0	-23.4

Note: * Only including 6 ASEAN countries, i. e., Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Source: *Monthly Statistics of Exports and Imports, Taiwan District, Republic of China, Department of Statistics, Ministry of Finance.*

with the share of total imports rising slightly to 24.2 percent in 2002. Japan remained Taiwan's largest source of imports. Due to the decreases in exports and the increases in imports, Taiwan's trade deficit with Japan registered a considerable increase of 16.9 percent to US\$15,299 million for the year.

In terms of Taiwan's trade with Europe, exports to Europe fell by 6.3 percent in 2002, with the share of total exports dropping to 14.2 percent from 16.1 percent in 2001. Taiwan's leading export items to Europe in 2002 were mechanical appliances and electrical machinery. Imports from Europe decreased by 2.3 percent in 2002, with the share of imports decreasing to 13.0 percent of total imports from 14.0 percent in 2001. As the decrease of exports was more than that of imports, Taiwan's trade surplus with Europe fell from US\$4,818 million to US\$3,909 million in 2002.

With respect to Taiwan's trade with Southeast Asia, exports to the six ASEAN countries including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam increased by 6.4 percent. Exports to Vietnam grew by 32.5 percent, the highest among the six ASEAN countries. The share of exports to these countries combined together remained at 11.9 percent. Imports from these countries rose by 3.8 percent in 2002, with the share of imports declining slightly to 14.7 percent. As a result, Taiwan's trade deficit with the six countries fell to US\$1,028 million in 2002 from US\$1,366 million in 2001.

(2) Services

Total service receipts amounted to US\$21,385 million in 2002, an increase of US\$1,890 million as compared with the previous year. Total service payments for the year increased by US\$517 million to US\$25,217 million. The services account has continually been in deficit. In 2002, this deficit narrowed to US\$3,832 million from US\$5,205 million recorded in 2001.

Of the various components of the services account, net payments with respect to transportation decreased from US\$2,811 million recorded a year earlier to US\$2,758 million in 2002, largely due to the increases in international freight revenue received by local vessels. Total travel receipts posted a record high of US\$4,229 million, as both the length of stay and daily expenditure of nonresidents visiting Taiwan increased. Total travel payments for the year declined by US\$356 million to US\$6,963 million, the lowest value recorded since 1992. The decrease in travel payments was mainly because residents' daily overseas travel expenditure declined by more than 10 percent in 2002. As a result, net travel payments declined to US\$2,734 million. The account of other services turned to a surplus for the second consecutive

year, with the surplus rising to US\$1,660 million in 2002. This surplus was mainly due to a huge increase in net inward remittances related to merchanting.

(3) Income

Total income receipts increased by US\$1,010 million to US\$10,337 million in 2002, the highest level ever recorded. Total income payments for the year amounted to US\$2,983 million, US\$665 million less than in 2001. The surplus on the income account increased from US\$5,679 million in 2001 to US\$7,354 million in 2002, mainly due to the increase in investment income on the Bank's foreign exchange reserves, increased inward remittances of interests earnings and equity dividends abroad by residents, as well as decreased outward remittances from nonresidents' direct investment income.

(4) Current Transfers

Total current transfer receipts amounted to US\$2,622 million in 2002, US\$15 million more than in the previous year. Total current transfer payments for the year decreased by US\$229 million to US\$5,112 million. Net current transfer payments decreased from US\$2,734 million to US\$2,490 million in 2002, owing to the decline in outward remittances by cross-border workers and residents to support their overseas relatives.

Shrinking Capital Account Deficit

The capital account includes capital transfers (debt forgiveness, ownership transfer of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, non-financial



assets. In 2002, the capital account consistently exhibited a deficit, but the gap narrowed by US\$163 million to US\$139 million, the lowest figure recorded since 1990. The decrease was mainly as a result of the decreased outward remittances of migrants.

Surging Inflow in the Financial Account

In 2002, the financial account exhibited a net inflow of US\$8,386 million, a considerable increase when compared with US\$329 million recorded in the previous year. The financial account transactions are classified in three categories, i.e. direct investment, portfolio investment and other investment.

(1) Direct Investment

Direct investment abroad by residents accounted for a net outflow of US\$4,886 million, US\$594 million less than in the previous year. Direct investment in Taiwan by nonresidents posted a net inflow of US\$1,445 million, a sharp reduction of 64.8 percent, mainly because of the downturns in global direct investment and the higher base of the previous year. The net outflow of direct investment increased from US\$1,371 million to US\$3,441 million in 2002.

(2) Portfolio Investment

Portfolio investment abroad by residents exhibited a huge net outflow of US\$15,553 million, the highest level ever recorded. Due to the falling domestic interest rate, residents increased foreign securities holdings via overseas mutual funds sold by local banks. Furthermore, in order to increase revenues, insurance companies also increased their investment in foreign securities. Net inflow of local portfolio investment by nonresidents decreased from US\$11,136 million in 2001 to US\$6,368 million in 2002, mainly due to the decreases in foreign institutional investors' investment. As a result, portfolio investment exhibited a net outflow of US\$9,185 million in 2002, up from US\$1,291 million in 2001.

(3) Other Investment

Other investment abroad by residents recorded a net inflow of US\$11,827 million, representing a decrease of other claims on nonresidents by residents. Because of an expectation for the appreciation of the NT dollar against the US dollar, the banking sector and nonbank private sector decreased their holdings of foreign deposits and other claims. Other local investments by nonresidents stood at a net inflow of US\$9,185 million, representing an increase of residents' other liabilities to nonresidents, which can be mainly attributed to the increased borrowings from abroad by the local banking sector. As a result, other investment exhibited a net inflow

of US\$21,012 million in 2002, the highest figure on record.

Considerable Increase in Foreign Exchange Reserves

For the year as a whole, the foreign exchange reserve assets held by the Bank increased by US\$33,664 million to its historic high. Reserve assets posted sharp increases as a result of huge current account surpluses, as well as a massive decrease in local banks' holding of foreign deposits and an increase in their foreign borrowings in response to the declines of residents' foreign currency deposits with local banks due to an expectation for the NT dollar's appreciation against the US dollar. As a consequence, the total amount of foreign exchange reserves rose to a record high of US\$161.7 billion at the end of the year.