

3. Balance of Payments

In 2019, Taiwan's current account surplus shrank to US\$64,350 million, which accounted for 10.5% of nominal GDP, down from 11.6% in the previous year. The financial account posted a net asset increase of US\$52,857 million. The reserves and related items recorded a surplus of US\$16,658 million, which was reflected in the increase in foreign reserve assets held by the Bank.

Balance of Payments

Unit: US\$ Million

	(1) 2019	(2) 2018	(1)-(2)
A. Current Account	64,350	70,843	-6,493
Goods: credit (exports)	330,910	345,495	-14,585
Goods: debit (imports)	273,137	278,461	-5,324
Balance on Goods	57,773	67,034	-9,261
Services: credit (exports)	51,811	50,209	1,602
Services: debit (imports)	56,995	56,831	164
Balance on Services	-5,184	-6,622	1,438
Primary income: credit	39,114	39,051	63
Primary income: debit	24,451	25,299	-848
Balance on primary income	14,663	13,752	911
Secondary income: credit	8,239	7,643	596
Secondary income: debit	11,141	10,964	177
Balance on secondary income	-2,902	-3,321	419
B. Capital Account	-3	63	-66
C. Financial Account	52,857	54,220	-1,363
Direct investment: assets	11,861	18,058	-6,197
Equity and investment fund shares	10,834	17,431	-6,597
Debt instruments	1,027	627	400
Direct investment: liabilities	8,213	6,998	1,215
Equity and investment fund shares	8,087	7,195	892
Debt instruments	126	-197	323
Portfolio investment: assets	54,764	68,853	-14,089
Equity and investment fund shares	-2,584	2,376	-4,960
Debt securities	57,348	66,477	-9,129
Portfolio investment: liabilities	8,476	-15,175	23,651
Equity and investment fund shares	8,114	-14,385	22,499
Debt securities	362	-790	1,152
Financial derivatives: assets	-15,490	-16,748	1,258
Financial derivatives: liabilities	-17,991	-18,386	395
Other investment: assets	7,417	-20,082	27,499
Other investment: liabilities	6,997	22,424	-15,427
D. Net Errors and Omissions	5,168	-4,187	9,355
E. Reserves and Related Items*	16,658	12,499	4,159

Note: * Excluding valuation changes in exchange rates.
Source: *Balance of Payments*, CBC, February 2020.

Narrowing Current Account Surplus

The current account consists of four major items, namely goods, services, primary income, and secondary income.

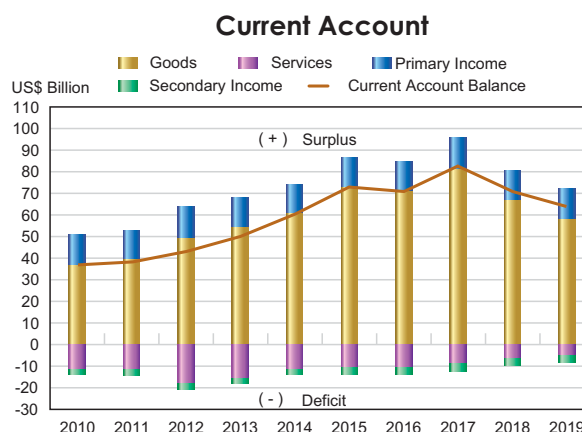
(1) Goods

Because of slower global economic growth and lower international raw material prices, Taiwan's external merchandise trade experienced a slowdown in 2019, with the value of exports, on a BOP basis, decreasing by 4.2% to US\$330,910 million from 2018. Among its components, net exports of goods under merchanting declined by 5.1% to US\$10,803 million. The value of imports decreased by 1.9% to US\$273,137 million. Overall, as the decrease in exports exceeded that in imports, the trade surplus narrowed from US\$67,034 million to US\$57,773 million in the year. The top five trading partners of Taiwan in 2019 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), ASEAN,¹ the US, Europe, and Japan.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$132,228 million in 2019, 4.1% lower than the previous year. As a manufacturing center of the world, Mainland China remained Taiwan's largest export market, though its share of total exports shrank to 40.2%. Among major export products, plastics and rubber and articles thereof and chemicals contributed the most to this negative growth in Taiwan's exports to Mainland China, owing to a broad downtrend in international raw material prices. However, exports of electronic parts and components to Mainland China increased by 3.2%, because the US-China trade conflict drove Mainland China to strengthen its pursuit of technological self-reliance and to seek non-US suppliers. Imports from Mainland China grew by 5.9% to US\$58,443 million in 2019, comprising a larger share of 20.4% in total imports. The increase mainly came from electronic parts and components and information, communication and audio-video products as a result of stronger export-derived demand. In sum, the trade surplus with Mainland China decreased to US\$73,785 million in 2019 but still remained the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies decreased to US\$53,920 million in 2019, down by 7.2% with a weak export performance of mineral products. Imports from the ASEAN economies increased by 1.4% to US\$35,028 million, accounting for 12.3% of total imports, as imports of electronic parts and components rose. Overall, the trade surplus with the ASEAN economies declined to US\$18,892 million.

¹ Association of Southeast Asian Nations, including Brunei Darussalam, Cambodia, Indonesia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.



Source: Balance of Payments, CBC, February 2020.

Singapore, Vietnam, and the Philippines were the third, fourth, and fifth largest sources of Taiwan's trade surplus, respectively.

In 2019, Taiwan's exports to the US grew 17.2% to US\$46,268 million, comprising a higher share of 14.0% in total exports. Among the exported goods, information, communication and audio-video products posted a 59.5% increase. This was mainly because a hike (from 10% to 25%) in additional US tariffs in May on imports from China of such goods as servers, routing apparatus, and memory modules, as well as information security concerns which prompted some production relocation to Taiwan. As for imports from the US, the amount rose by 5.2% to US\$34,814 million, with its share in total imports climbing to 12.2%. The major products leading the growth were machinery and mineral products. The trade surplus with the US expanded to US\$11,454 million for the year, ranking second among Taiwan's surplus sources.

Exports to Europe decreased by 4.8% to US\$29,775 million, with its share of total exports decreasing to 9.0%. The major products contributing to this contraction were base metals & articles thereof and electronic parts and components. Imports from Europe increased by 5.7% to US\$36,539 million, with the share of total imports increasing to 12.8%, mainly because imports of machinery (especially semiconductor equipment) sharply rose by 71.7%. In all, Taiwan's trade deficit with Europe expanded to US\$6,765 million in 2019.

Exports to Japan increased by 2.1% to US\$23,286 million as its share in Taiwan's total exports increased to 7.1%. Of all major products exported to Japan, electronic parts and components and

Trade in Goods by Country

Unit: %

	2019			2018		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	132,228	40.2	-4.1	137,899	41.3	6.1
ASEAN	53,920	16.4	-7.2	58,126	17.4	-0.7
US	46,268	14.0	17.2	39,490	11.8	7.4
Europe	29,775	9.0	-4.8	31,278	9.4	8.7
Japan	23,286	7.1	2.1	22,801	6.8	10.8
Rest of the World	43,842	13.3	-1.3	44,414	13.3	8.5
Total	329,320	100.0	-1.4	334,007	100.0	5.9
Imports						
Mainland China (including Hong Kong)	58,443	20.4	5.9	55,199	19.4	7.1
Japan	44,035	15.4	-0.3	44,151	15.5	5.3
US	34,814	12.2	5.2	33,105	11.6	16.6
Europe	36,539	12.8	5.7	34,580	12.1	10.4
ASEAN	35,028	12.3	1.4	34,549	12.1	11.4
Rest of the World	76,979	26.9	-7.5	83,207	29.2	14.0
Total	285,839	100.0	0.4	284,792	100.0	10.7

Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R.O.C. (Taiwan).

information, communication and audio-video products contributed the most to the growth. Imports from Japan decreased slightly by 0.3% to US\$44,035 million, despite a 23.5% increase in machinery imports, and its share of total imports remained at 15.4%. Japan remained Taiwan's second largest source of imports in 2019. Overall, the trade deficit with Japan shrank to US\$20,749 million.

(2) Services

In 2019, services receipts increased by US\$1,602 million to US\$51,811 million. Services payments increased by US\$164 million to US\$56,995 million. In all, the services deficit continued narrowing to US\$5,184 million.

Of the various components of the services account, receipts of manufacturing services on physical inputs owned by others, reflected by the receipts of a resident providing a nonresident with the services of processing, assembly, labeling, or packing of goods owned by the nonresident, increased by US\$433 million to US\$3,214 million in 2019. On the debit side, payments for manufacturing services, namely a resident's payments to a nonresident for providing these services for the resident who is also the owner of the goods concerned, decreased by US\$779 million to US\$1,947 million. In total, net manufacturing receipts increased from US\$55 million to US\$1,267 million.

In terms of maintenance and repair services n.i.e. (not included elsewhere), which covers maintenance and repair work for or by nonresidents on ships, aircraft, and other transport equipment, the receipts declined by US\$141 million to US\$1,389 million owing to decreased receipts from aircraft repairs. On the other hand, the payments were US\$924 million, approximately the same as the previous year. Overall, the surplus on this account narrowed from US\$606 million to US\$465 million.

Transport receipts decreased by US\$496 million to US\$10,455 million, reflecting decreases in international freight proceeds received by domestic carriers. Transport payments decreased by US\$675 million to US\$11,775 million as a result of decreases in passenger fares paid to foreign airlines. Overall, net transport payments decreased from US\$1,499 million to US\$1,320 million in the year.

Travel receipts increased by US\$669 million to US\$14,373 million, mainly because of a larger number of inbound visitors. Meanwhile, travel payments increased by US\$1,079 million to US\$20,507 million, a new historical level as the number of outbound travelers mounted. The numbers of inbound visitors and outbound travelers both reached record highs, increasing by 7.2% and 2.7%, respectively. However, as the average length of stay of inbound visitors declined, the deficit on the travel account widened to US\$6,134 million, the largest on record.

Other services receipts grew by US\$1,137 million to US\$22,380 million, mainly attributable to increases in receipts from professional and technical services (which is under other business services), computer and information services, and financial services. Other services payments rose by US\$539 million to US\$21,842 million, owing to increases in payments for computer and information services, financial

services, and construction. In all, other services exhibited a surplus of US\$538 million in 2019, reversing the deficit in the previous year.

(3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2019, primary income receipts slightly increased by US\$63 million to US\$39,114 million, mainly because of increasing interest received by banks. Meanwhile, primary income payments amounted to US\$24,451 million, US\$848 million less than the previous year. This was mostly attributable to a decrease in direct investment income paid to nonresidents. Consequently, the surplus on the primary income account rose to US\$14,663 million for the year of 2019.

(4) Secondary Income

For the year of 2019, secondary income receipts amounted to US\$8,239 million, reflecting increases in inward family support allowances and workers' remittances. Secondary income payments amounted to US\$11,141 million, mainly owing to increases in gifts and samples and net premiums paid to nonresidents. As a whole, the deficit on secondary income narrowed to US\$2,902 million in 2019.

Capital Account Deficit

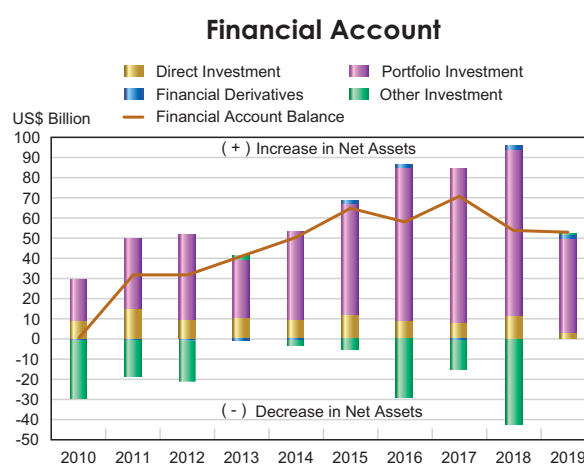
The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2019, the balance of the capital account turned from a surplus to a deficit of US\$3 million.

Net Asset Increase in Financial Account

In 2019, the financial account showed an increase of US\$52,857 million in net assets. In terms of sub-categories, direct investment, portfolio investment, financial derivatives, and other investment exhibited increases of US\$3,648 million, US\$46,288 million, US\$2,501 million, and US\$420 million in net assets, respectively.

(1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$11,861 million in assets. Direct investment in Taiwan by nonresidents showed an increase of US\$8,213 million, the highest on record except for 2016.



Source: *Balance of Payments*, CBC, February 2020.

(2) Portfolio Investment

In 2019, portfolio investment abroad by residents increased by US\$54,764 million mainly because onshore funds and insurance companies expanded their investment abroad. Equity and investment fund shares decreased by US\$2,584 million, and debt securities increased by US\$57,348 million.

On the other hand, local portfolio investment by nonresidents increased by US\$8,476 million as foreign investors increased holdings of Taiwanese stocks. Equity and investment fund shares increased by US\$8,114 million, and debt securities increased by US\$362 million.

(3) Financial Derivatives

Assets in financial derivatives decreased by US\$15,490 million, principally because of gains on transactions of financial derivatives received by other financial corporations.

Liabilities in financial derivatives decreased by US\$17,991 million, mainly because of losses on transactions of financial derivatives paid by other financial corporations.

(4) Other Investment

In 2019, other investment abroad by residents increased by US\$7,417 million. Of the components, currency and deposits increased by US\$8,117 million as a result of growing banks' due from overseas branches; loans exhibited an increase of US\$4,442 million because of an increase in interbank loans; trade credit decreased by US\$4,442 million; other accounts receivable decreased by US\$705 million as a result of a decrease in banks' accounts receivable from nonresidents.

Other inward investment by nonresidents increased by US\$6,997 million. Of the components, currency and deposits increased by US\$3,950 million because of growing deposits in Offshore Banking Units by nonresidents; loans increased by US\$47 million; trade credit increased by US\$3,592 million; other accounts payable decreased by US\$592 million, owing to a decrease in banks' accounts payable to nonresidents.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$16,658 million in 2019 mainly owing to returns from foreign exchange reserves management.