

3. Balance of Payments

In 2020, Taiwan's current account registered a record surplus of US\$94,276 million, which accounted for 14.1% of nominal GDP, up from 10.6% in the previous year. The financial account posted a net asset increase of US\$50,035 million. The reserves and related items recorded a surplus of US\$48,342 million, which was reflected in the increase in foreign reserve assets held by the Bank.

Balance of Payments

Unit: US\$ Million

| | (1) 2020 | (2) 2019 | (1)-(2) |
|------------------------------------|-------------|-------------|---------|
| A. Current Account | 94,276 | 65,161 | 29,115 |
| Goods: credit (exports) | 344,838 | 330,743 | 14,095 |
| Goods: debit (imports) | 270,096 | 273,072 | -2,976 |
| Balance on Goods | 74,742 | 57,671 | 17,071 |
| Services: credit (exports) | 41,170 | 51,838 | -10,668 |
| Services: debit (imports) | 37,855 | 56,905 | -19,050 |
| Balance on Services | 3,315 | -5,067 | 8,382 |
| Primary income: credit | 38,507 | 39,152 | -645 |
| Primary income: debit | 19,145 | 23,756 | -4,611 |
| Balance on primary income | 19,362 | 15,396 | 3,966 |
| Secondary Income: credit | 7,958 | 8,238 | -280 |
| Secondary Income: debit | 11,101 | 11,077 | 24 |
| Balance on secondary income | -3,143 | -2,839 | -304 |
| B. Capital Account | -9 | -3 | -6 |
| C. Financial Account | 50,035 | 57,554 | -7,519 |
| Direct investment: assets | 14,268 | 11,787 | 2,481 |
| Equity and investment fund shares | 10,972 | 10,760 | 212 |
| Debt instruments | 3,296 | 1,027 | 2,269 |
| Direct investment: liabilities | 8,802 | 8,240 | 562 |
| Equity and investment fund shares | 5,536 | 8,086 | -2,550 |
| Debt instruments | 3,266 | 154 | 3,112 |
| Portfolio investment: assets | 36,122 | 54,877 | -18,755 |
| Equity and investment fund shares | 1,974 | -2,301 | 4,275 |
| Debt securities | 34,148 | 57,178 | -23,030 |
| Portfolio investment: liabilities | -22,421 | 8,476 | -30,897 |
| Equity and investment fund shares | -23,275 | 8,110 | -31,385 |
| Debt securities | 854 | 366 | 488 |
| Financial derivatives: assets | -20,563 | -15,490 | -5,073 |
| Financial derivatives: liabilities | -21,016 | -17,991 | -3,025 |
| Other investment: assets | 2,140 | 12,112 | -9,972 |
| Other investment: liabilities | 16,567 | 7,007 | 9,560 |
| D. Net Errors and Omissions | 4,110 | 9,054 | -4,944 |
| E. Reserves and Related Items* | 48,342 | 16,658 | 31,684 |

Note: * Excluding valuation changes in exchange rates.
Source: *Balance of Payments*, CBC, February 2021.

Widened Current Account Surplus

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

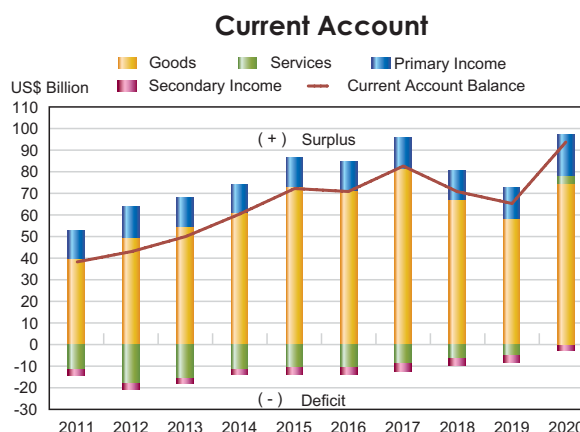
(1) Goods

Owing to increased use of emerging technologies like 5G communications, Taiwan's external merchandise trade experienced an expansion in 2020, with the value of exports, on a BOP basis, increasing by 4.3% to US\$344,838 million from 2019. Among its components, net exports of goods under merchanting increased by 25.0% to US\$13,262 million. The value of imports decreased by 1.1% to US\$270,096 million. Overall, as a result of increased exports and decreased imports, the trade surplus widened from US\$57,671 million to US\$74,742 million. The top five trading partners of Taiwan in 2020 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\$151,450 million in 2020, 14.6% higher than the previous year. As a manufacturing center of the world, Mainland China remained Taiwan's largest export market, and its share of total exports rose to 43.9%. Among major export products, electronic parts and components maintained the leading role, which benefited from increased use of emerging technologies. Imports from Mainland China grew by 10.8% to US\$64,779 million in 2020, comprising a larger share of 22.6% 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. As the increase in exports exceeded that in imports, the trade surplus with Mainland China increased to US\$86,671 million in 2020, which remained the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies decreased to US\$53,240 million in 2020, down by 1.3% with a weak export performance of mineral products and textiles. Imports from the ASEAN economies increased by 2.7% to US\$35,903 million, accounting for 12.5% of total imports, mainly owing to increases in imports of electronic parts and components and information, communication and audio-video products. Overall, the trade surplus with the ASEAN economies declined to US\$17,338 million. Singapore, Vietnam, and the Philippines were the third, fourth, and fifth largest sources of Taiwan's trade surplus, respectively.

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 2021.

In 2020, Taiwan's exports to the US grew 9.3% to US\$50,554 million, comprising a larger share of 14.6% in total exports. The increase mainly came from information, communication and audio-video products. As for imports from the US, the value declined by 6.4% to US\$32,613 million, with its share in total imports decreasing to 11.4%. The major products contributing to the contraction included mineral products. Overall, the trade surplus with the US expanded to US\$17,941 million for the year, ranking second among Taiwan's surplus sources.

Exports to Europe decreased by 5.4% to US\$28,169 million, with its share of total exports falling to 8.2%. The two major products contributing to this contraction were iron and steel and articles thereof and machinery. Imports from Europe increased by 0.8% to US\$36,834 million, with the share of total imports increasing to 12.9%, mainly because of an increase in imports of mineral products and gold. In all, Taiwan's trade deficit with Europe expanded to US\$8,665 million in 2020.

Exports to Japan increased slightly by 0.5% to US\$23,402 million but its share in Taiwan's total exports decreased to 6.8%. Imports from Japan increased by 4.2% to US\$45,890 million and its share of total imports rose to 16.0%, with electronic parts and components contributing the most to this increase. The trade deficit with Japan widened to US\$22,488 million. Japan remained Taiwan's second largest source of imports and the largest source of trade deficit in 2020.

Trade in Goods by Country

Unit: %

| | 2020 | | | 2019 | | |
|--------------------------------------|--------------------------|-------|------------------|--------------------------|-------|------------------|
| | Amount (US\$ Million) | Share | Annual Change | Amount (US\$ Million) | Share | Annual Change |
| Exports | | | | | | |
| Mainland China (including Hong Kong) | 151,450 | 43.9 | 14.6 | 132,115 | 40.1 | -4.2 |
| ASEAN | 53,240 | 15.4 | -1.3 | 53,935 | 16.4 | -7.2 |
| US | 50,554 | 14.6 | 9.3 | 46,247 | 14.1 | 17.1 |
| Europe | 28,169 | 8.2 | -5.4 | 29,770 | 9.0 | -4.8 |
| Japan | 23,402 | 6.8 | 0.5 | 23,279 | 7.1 | 2.1 |
| Rest of the World | 38,458 | 11.1 | -12.2 | 43,812 | 13.3 | -1.4 |
| Total | 345,274 | 100.0 | 4.9 | 329,157 | 100.0 | -1.5 |
| Imports | | | | | | |
| Mainland China (including Hong Kong) | 64,779 | 22.6 | 10.8 | 58,457 | 20.5 | 5.9 |
| Japan | 45,890 | 16.0 | 4.2 | 44,052 | 15.4 | -0.2 |
| US | 32,613 | 11.4 | -6.4 | 34,850 | 12.2 | 5.3 |
| Europe | 36,834 | 12.9 | 0.8 | 36,530 | 12.8 | 5.6 |
| ASEAN | 35,903 | 12.5 | 2.7 | 34,965 | 12.2 | 1.2 |
| Rest of the World | 70,462 | 24.6 | -8.2 | 76,797 | 26.9 | -7.7 |
| Total | 286,481 | 100.0 | 0.3 | 285,651 | 100.0 | 0.3 |

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

(2) Services

In 2020, services turned from a US\$5,067 million deficit to a US\$3,315 million surplus, mainly because of a smaller travel deficit and increasing freight transport receipts amid the COVID-19 pandemic.

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\$590 million to US\$3,804 million in 2020. 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\$267 million to US\$1,615 million. In total, net manufacturing receipts increased from US\$1,332 million to US\$2,189 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\$109 million to US\$1,280 million owing to decreased receipts from aircraft repairs. On the other hand, the payments thereof declined by US\$170 million to US\$752 million. In all, the surplus on this account widened to US\$528 million.

Transport receipts increased by US\$490 million to US\$11,012 million, reflecting increases in international freight proceeds owing to the transportation of products related to the pandemic response and stay-at-home economy, as well as cross-border e-commerce transactions. Transport payments declined by US\$1,915 million to US\$9,904 million as a result of decreases in passenger fares paid to foreign airlines. Overall, net transport services in 2020 turned from a US\$1,297 million deficit to a US\$1,108 million surplus.

Travel receipts decreased by US\$12,565 million to US\$1,846 million, and travel payments decreased by US\$17,350 million to US\$3,150 million. This was because the COVID-19 border control measures across the world led the numbers of inbound visitors and outbound travelers to both shrink. In all, the deficit on the travel account narrowed to US\$1,304 million.

Other services receipts grew by US\$926 million to US\$23,228 million, mainly attributable to increases in receipts from computer and information services and from professional and technical services (under other business services). Other services payments rose by US\$652 million to US\$22,434 million, owing to increases in charges for the use of intellectual property n.i.e. and payments for computer and information services. Overall, the surplus of other services widened to US\$794 million in 2020.

(3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2020, primary income receipts decreased by US\$645 million to US\$38,507 million, mainly because of less interest received by banks. Meanwhile, primary income payments also decreased to US\$19,145 million, US\$4,611 million less than the previous year. This was mostly attributable to a reduction in interest paid by banks. After the *Management, Utilization, and Taxation of Repatriated Offshore Funds Act* took effect on August 15, 2019, some overseas direct investment income

continued to be repatriated in 2020. Consequently, the surplus on the primary income account rose to US\$19,362 million.

(4) Secondary Income

For the year of 2020, secondary income receipts amounted to US\$7,958 million, reflecting decreases in inward family support allowances. Secondary income payments amounted to US\$11,101 million, mainly owing to increases in outward workers' remittances. As a whole, the deficit on secondary income widened to US\$3,143 million in 2020.

Capital Account Deficit

The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2020, the deficit on the capital account amounted to US\$9 million, increasing by US\$6 million.

Net Asset Increase in Financial Account

In 2020, the financial account showed an increase of US\$50,035 million in net assets. In terms of sub-categories, direct investment, portfolio investment, and financial derivatives exhibited increases of US\$5,466 million, US\$58,543 million, and US\$453 million in net assets, respectively. Other investment exhibited a decrease of US\$14,427 million in net assets.

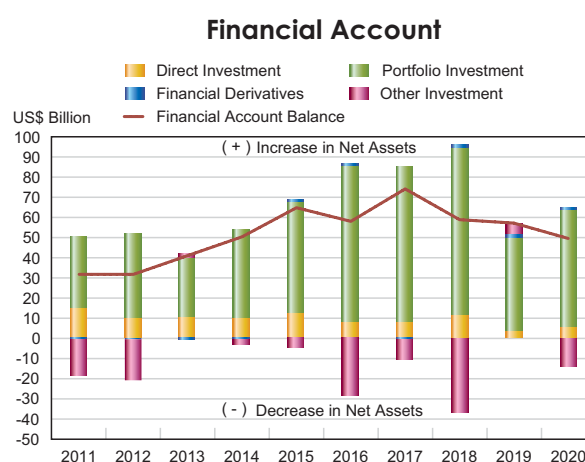
(1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$14,268 million in assets. Direct investment in Taiwan by nonresidents showed an increase of US\$8,802 million, the highest on record except for 2016.

(2) Portfolio Investment

In 2020, portfolio investment abroad by residents increased by US\$36,122 million mainly because insurance companies and banks expanded their overseas investment. Equity and investment fund shares increased by US\$1,974 million, and debt securities by US\$34,148 million.

On the other hand, local portfolio investment by nonresidents decreased by US\$22,441 million as foreign investors reduced holdings of Taiwanese stocks. Equity and investment fund shares decreased by US\$23,275 million, while debt securities increased by US\$854 million.



Source: Balance of Payments, CBC, February 2021.

(3) Financial Derivatives

Assets in financial derivatives decreased by US\$20,563 million, principally accounted for by gains on transactions of financial derivatives received by other financial corporations.

Liabilities in financial derivatives decreased by US\$21,016 million, mainly because of losses on transactions of financial derivatives paid by other financial corporations.

(4) Other Investment

In 2020, other investment abroad by residents increased by US\$2,140 million. Of the components, currency and deposits increased by US\$9,808 million as a result of growing banks' due from overseas branches; loans exhibited an increase of US\$4,034 million because of an increase in interbank loans; trade credit decreased by US\$8,598 million, owing to a decrease in trade credit extended by corporations; other accounts receivable decreased by US\$3,109 million as a result of a decrease in banks' accounts receivable from nonresidents.

Other inward investment by nonresidents increased by US\$16,567 million. Of the components, currency and deposits increased by US\$2,126 million because of growing deposits in Offshore Banking Units by nonresidents; loans increased by US\$5,447 million because of expanded external borrowing by non-financial corporations; trade credit increased by US\$9,116 million, owing to an increase in trade credit received by corporations; other accounts payable decreased by US\$122 million.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$48,432 million in 2020, mainly owing to returns from foreign exchange reserves management and the Bank's smoothing operations in response to excessive volatility caused by large capital inflows.