

3. BALANCE OF PAYMENTS

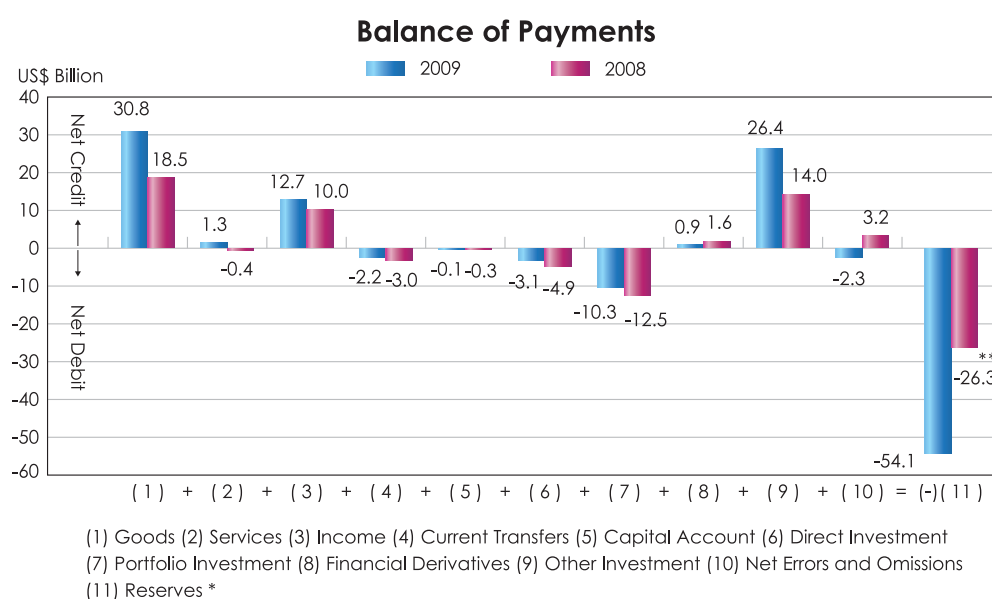
In 2009, the current account surplus, net financial inflows, and overall balance all reached historic highs. Compared with the previous year, the balance of trade in goods, services and income simultaneously increased, while net current transfer payments continually decreased. Consequently, the current account surplus increased to US\$42,572 million, and accounted for 10.9 percent of nominal GNP. The financial account exhibited a net inflow of US\$13,980 million, as the private sector repatriated overseas funds in large amounts. Finally, the overall balance recorded a surplus of US\$54,126 million, which reflected an increase in the foreign reserve assets held by the Bank.

Widening Current Account Surplus

The current account consists of four major items, which are goods, services, income, and current transfers. The current account surplus increased in 2009, mainly as a result of the massive surge in the trade surplus of goods and income, accompanied by a shift in services from deficit to surplus.

(1) Goods

As the global economic downturn continued to weaken foreign demand, both exports and imports on a balance of payments basis declined by record-high percentage points,



Note: * Excluding valuation changes in exchange rates.

** The minus sign (-) indicates an increase in foreign exchange reserves held by the Bank.

Source: Balance of Payments, CBC.

Balance of Payments

	Unit: US\$ Million	
	2009	2008
A. Current Account	42,572	25,122
Goods: exports f.o.b.	203,442	254,897
Goods: imports f.o.b.	-172,653	-236,419
Balance on Goods	30,789	18,478
Services: credit	31,286	34,770
Services: debit	-29,994	-35,125
Balance on Services	1,292	-355
Income: credit	20,532	23,277
Income: debit	-7,829	-13,299
Balance on Income	12,703	9,978
Current transfers: credit	4,753	5,210
Current transfers: debit	-6,965	-8,189
Balance on Current Transfers	-2,212	-2,979
B. Capital Account	-96	-334
Total, Groups A plus B	42,476	24,788
C. Financial Account	13,980	-1,753
Direct investment abroad	-5,858	-10,287
Direct investment in R.O.C. (Taiwan)	2,804	5,432
Portfolio investment assets	-31,658	3,289
Portfolio investment liabilities	21,372	-15,777
Financial derivatives assets	5,404	7,938
Financial derivatives liabilities	-4,492	-6,349
Other investment assets	25,758	10,766
Other investment liabilities	650	3,235
Total, Groups A through C	56,456	23,035
D. Net Errors And Omissions	-2,330	3,239
Total, Groups A through D	54,126	26,274
E. Reserves and Related Items*	-54,126	-26,274

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

falling into negative territory for the first time since 2002. The value of exports declined by 20.2 percent to US\$203,442 million, while the value of imports fell considerably by 27.0 percent to US\$172,653 million. Nevertheless, benefiting from governments' economic stimulus efforts and a lower base effect, both exports and imports returned to positive growth from November. As a result of a greater reduction in imports than in exports, the trade surplus on goods rose to US\$30,789 million, a record-high increase of 66.6 percent from the previous year.

As indicated by customs' statistics, the top three trading partners for Taiwan in 2009 were China including Hong Kong (hereafter referred to as China), the US, and Japan. Exports to these three countries accounted for 59.8 percent of total exports, while imports from them made up 45.8 percent of total imports.

In terms of Taiwan's trade with China, exports totaled US\$83,699 million in 2009, a large

Direction of Trade in Goods by Country

Unit: %

	2009			2008		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
China (including Hong Kong)	83,699	41.1	-15.9	99,573	39.0	-0.8
U. S. A.	23,557	11.6	-23.5	30,791	12.0	-4.0
Europe	22,578	11.1	-24.6	29,948	11.7	4.6
Southeast Asia 6*	30,153	14.8	-21.5	38,389	15.0	7.3
Japan	14,508	7.1	-17.4	17,556	6.9	10.2
Rest of the World	29,203	14.3	-25.8	39,372	15.4	16.3
Total	203,698	100.0	-20.3	255,629	100.0	3.6
Imports						
Japan	36,231	20.7	-22.1	46,508	19.3	1.2
U. S. A.	18,156	10.4	-31.0	26,327	10.9	-0.7
Europe	19,456	11.1	-20.4	24,451	10.2	3.8
Southeast Asia 6*	19,909	11.4	-22.2	25,582	10.6	8.0
China (including Hong Kong)	25,626	14.7	-22.1	32,884	13.7	10.2
Rest of the World	55,285	31.7	-34.7	84,696	35.2	21.5
Total	174,663	100.0	-27.4	240,448	100.0	9.7

Note: * Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

reduction of 15.9 percent compared with the previous year. The decrease was attributable to China's economic deceleration amid the global economic downturn since the second half of 2008, which led to a severe decline in demand for Taiwan's IT exports, particularly in electrical machinery and equipment and optical products. Given China's better-than-expected economic recovery and a lower base period, exports to China, however, grew by 0.3 percent in September after posting negative growth for 12 consecutive months, and registered remarkable growth of 11.0 percent, 47.8 percent and 91.2 percent in October, November and December, respectively. Meanwhile, the share of exports to China in total exports increased steadily by 2.1 percentage points to 41.1 percent. China remained Taiwan's largest export market in 2009.

Imports from China decreased to US\$25,626 millions, down by 22.1 percent, but its share in total imports rose to 14.7 percent in 2009, making China the second largest source of imports. Due to the pickup in the world economy, especially in China, imports from China returned to positive growth in November and December. The bilateral trade surplus with China declined by 12.9 percent to US\$58,073 million for the year. China remained the largest source of Taiwan's trade surplus.

Exports to the US decreased by 23.5 percent in 2009. The share of exports to the US in total exports dropped further to 11.6 percent in 2009. The decline resulted mainly from weak demand in the US and the continued outward relocation (mainly to China) of local industries. Imports

from the US fell significantly by 31 percent and its share of total imports dropped from 10.9 percent in 2008 to 10.4 percent. Because imports decreased by a larger amount, the bilateral trade surplus with the US increased to US\$5,400 million, representing a growth rate of 21 percent. The US returned to being the second largest source of Taiwan's trade surplus in 2009.

Exports to Japan decreased by 17.4 percent in 2009, while its share in total exports edged up to 7.1 percent. Imports from Japan fell sharply by 22.1 percent from a year earlier, with its share in total imports up to 20.7 percent. Japan remained Taiwan's largest source of imports. The trade deficit with Japan narrowed to US\$21,724 million for the year.

Exports to Europe decreased by 24.6 percent in 2009, with the share in total exports down to 11.1 percent. Imports from Europe fell by 20.4 percent, but its share in total exports rose to 11.1 percent. The trade surplus with Europe shrank from US\$5,498 million in 2008 to US\$3,122 million.

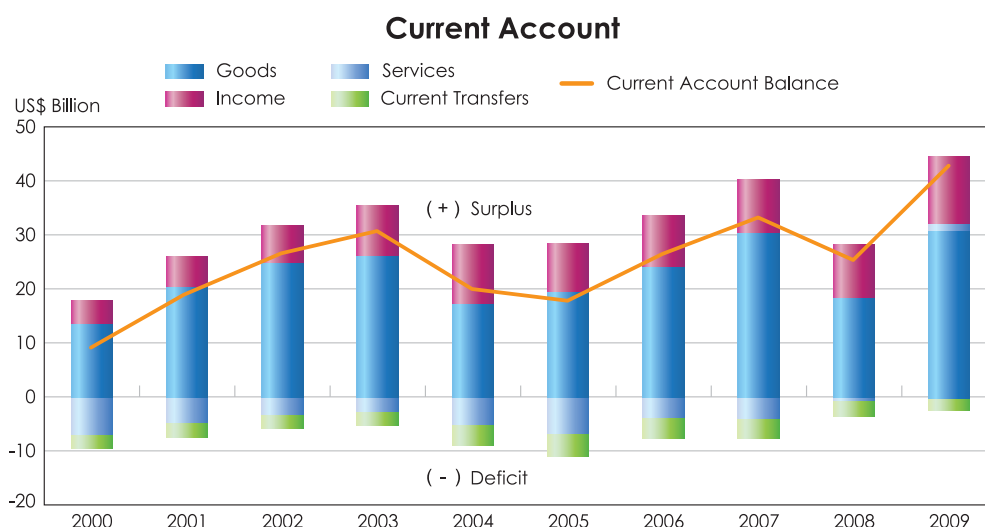
Exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, declined by 21.5 percent. The combined share of exports to these countries in total exports slipped to 14.8 percent. Total Imports from these countries dropped by 22.2 percent, but the combined share in total imports went up to 11.4 percent. The trade surplus with the six countries decreased to US\$10,244 million in 2009 compared with US\$12,807 million in 2008.

(2) Services

The balance of trade in services recorded its first ever surplus of US\$1,292 million in 2009. Service receipts decreased by US\$3,484 million to US\$31,286 million and payments fell by US\$5,131 million to US\$29,994 million.

Of the various components of the services account, receipts with respect to transportation decreased by US\$1,659 million to US\$5,473 million, mainly due to less receipts from domestic carriers on international shipments. Transportation payments also decreased by US\$3,407 million to US\$8,010 million, largely because of lower payments to foreign carriers in import freight costs. Consequently, net payments with respect to transportation declined from US\$4,285 million recorded a year earlier to US\$2,537 million in 2009.

Travel receipts increased by US\$1,023 million to US\$6,958 million, mainly because visitors from Mainland China increased significantly. In contrast, travel payments for the year decreased by US\$1,258 million to US\$7,858 million, because both the number and the expenditure of overseas visits by residents declined in the economic recession. Net travel payments decreased to US\$900 million.



Source: Balance of Payments, CBC.

Receipts from other services declined by US\$2,846 million to US\$18,855 million, mainly because net merchanting and financial service receipts diminished significantly. Other services payments decreased by US\$466 million to US\$14,126 million, largely accountable to charters of ships, professional and technical services. As a result, the surplus in net other services shrank from US\$7,109 million in 2008 to US\$4,729 million in 2009.

(3) Income

In 2009, both income receipts and payments decreased to US\$20,532 million and US\$7,829 million, respectively. In response to the global financial turmoil and its economic fallout, most countries cut interest rates, leading to a simultaneous decrease in all types of investment income. However, income payments decreased by a larger amount. Hence, the surplus on the income account increased from US\$9,978 million in 2008 to US\$12,703 million in 2009, reaching a record high.

(4) Current Transfers

Current transfer receipts and payments amounted to US\$4,753 million and US\$6,965 million, respectively. Net current transfer payments decreased from US\$2,979 million in 2008 to US\$2,212 million, due to the decrease in outward remittances by residents to support their overseas relatives.

Decreasing Capital Account Deficit

In 2009, the capital account registered a narrower deficit of US\$96 million, from a US\$334 million deficit in 2008. This was mainly due to the decreased acquisitions of non-produced,

non-financial assets.

Net Inflows in the Financial Account

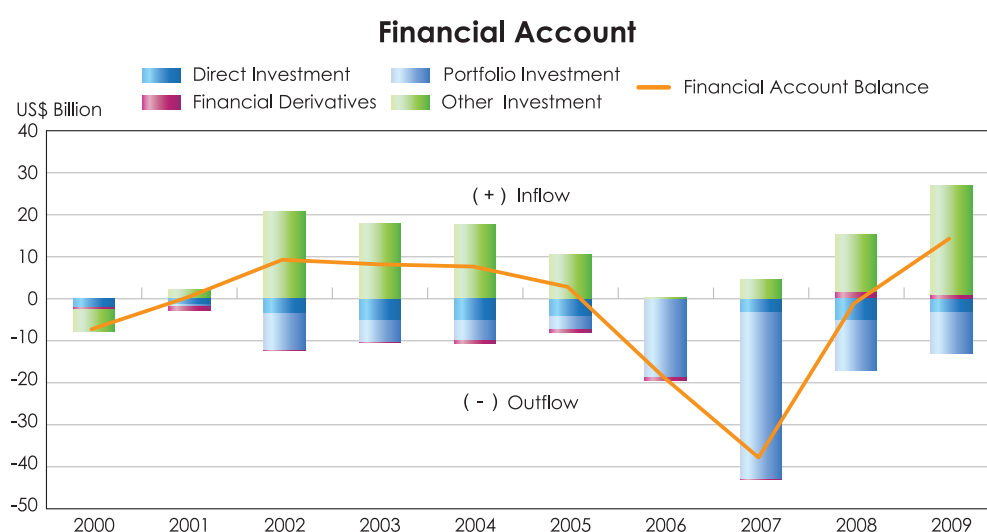
In 2009, the financial account showed a significant net inflow of US\$13,980 million, the highest level on record, mainly because the private sector repatriated overseas funds. In terms of sub-categories, direct investment and portfolio investment posted a net outflow of US\$3,054 million and US\$10,286 million, respectively, while other investment and financial derivatives showed a net inflow of US\$26,408 million and US\$912 million, respectively.

(1) Direct Investment

Direct investment abroad by residents showed a net outflow of US\$5,858 million. On the other hand, direct investment in Taiwan by nonresidents registered a net inflow of US\$2,804 million. They were US\$4,429 million and US\$2,628 million less than in the previous year, respectively. Affected by the global financial turmoil, direct investment remained conservative. The main targets for investment included the electronic parts and components manufacturing industry, the computer and electronic manufacturing industry, the financial industry, and the wholesale and retail industry. In particular, China remained the major recipient of Taiwan's direct investment abroad. Accordingly, direct investment registered a net outflow of US\$3,054 million in 2009, US\$1,801 million less than in 2008.

(2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net outflow of US\$31,658 million, as



Source: Balance of Payments, CBC.

global financial markets gradually became stable and interest rates stayed low in the domestic market. In contrast, local portfolio investment by nonresidents registered a net inflow of US \$21,372 million in 2009. The factors encouraging them included the better cross-strait relationship and the portfolio allocation of international funds in Asia, which were attracted by economic recovery in East Asia. Consequently, the net outflow of portfolio investment slightly declined to US\$10,286 million in 2009, compared to US\$12,488 million in 2008.

(3) Financial Derivatives

Financial derivatives recorded a net inflow of US\$912 million, mainly because the banking sector took profits from financial derivatives transactions such as interest rate swaps and foreign exchange swaps.

(4) Other Investment

Other investment abroad by residents recorded a net inflow of US\$25,758 million, representing an increase in other claims on nonresidents by residents. This mainly reflected the withdrawal of overseas deposits by the private sector. Other local investment by nonresidents showed a net inflow of US\$650 million, attributable to the borrowings from abroad by residents. Therefore, the net inflow of other investment substantially increased to US\$26,408 million in 2009.

Significant Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$54,126 million, as a result of the current account surplus and the net inflow in the financial account.