3. BALANCE OF PAYMENTS

In 2010, global financial turmoil gradually subsided, the world economy and financial markets recovered, and the domestic outlook brightened on account of the signing of the Economic Cooperation Framework Agreement. Against the backdrop, the volume of goods and services in the current account and direct investment abroad in the financial account all reached historic highs this year. Compared with the previous year, the surpluses of services and income expanded, while the goods surplus decreased and the current transfer deficit increased. Consequently, the current account surplus shrank to US$40,617 million, which accounted for 9.1 percent of nominal GNP. The financial account exhibited a net outflow of US$607 million, with direct investment and portfolio investment showing net outflows of US$8,646 million and US$20,662 million, respectively, and other investment revealed a net inflow of US$28,075 million. Finally, the overall balance recorded a surplus of US$40,173 million, which was reflected in an increase in the foreign reserve assets held by the Bank.

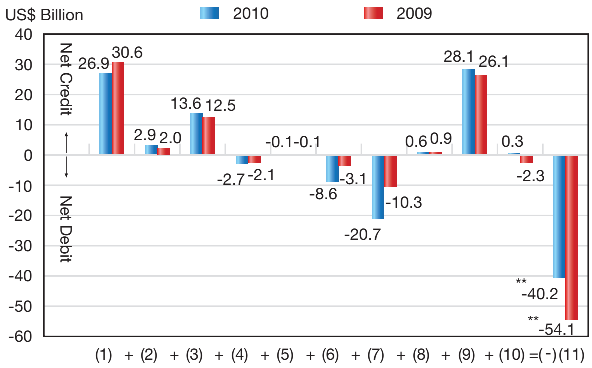
Narrowing Current Account Surplus

The current account consists of four major items—goods, services, income, and current transfers. While the surpluses of services and income increased, the current account surplus narrowed in 2010, mainly due to the decrease in the surplus of goods and a growing current transfers deficit.

(1) Goods

For the year 2010, whether on a balance of payments basis or on a customs basis, the value of exports and imports both registered double-digit growth and reached historic highs. The value of exports grew by 34.9 percent to US$274,363 million, largely fueled by the robust economic growth in emerging economies, strengthening foreign demand for IT products, and a relatively low base period. The value of imports increased by 43.2 percent to US$247,501 million, primarily led by stronger export-derived demand and escalating international crude oil

Balance of Payments



(1) Goods (2) Services (3) Income (4) Current Transfers (5) Capital Account
(6) Direct Investment (7) Portfolio Investment (8) Financial Derivatives
(9) Other Investment (10) Net Errors and Omissions (11) Reserves *

Notes: * 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

	2010	2009
A. Current Account	40,617	42,911
Goods: exports f.o.b.	274,363	203,399
Goods: imports f.o.b.	-247,501	-172,846
Balance on Goods	26,862	30,553
Services: credit	40,897	31,774
Services: debit	-37,983	-29,783
Balance on Services	2,914	1,991
Income: credit	23,245	20,339
Income: debit	-9,689	-7,827
Balance on Income	13,556	12,512
Current transfers: credit	5,249	4,902
Current transfers: debit	-7,964	-7,047
Balance on Current Transfers	-2,715	-2,145
B. Capital Account	-113	-96
Total, Groups A plus B	40,504	42,815
C. Financial Account	-607	13,561
Direct investment abroad	-11,127	-5,877
Direct investment in R.O.C. (Taiwan)	2,481	2,805
Portfolio investment assets	-33,473	-31,699
Portfolio investment liabilities	12,811	21,372
Financial derivatives assets	4,792	5,344
Financial derivatives liabilities	-4,166	-4,492
Other investment assets	10,846	25,754
Other investment liabilities	17,229	354
Total, Groups A through C	39,897	56,376
D. Net Errors And Omissions	276	-2,250
Total, Groups A through D	40,173	54,126
E. Reserves and Related Items*	-40,173	-54,126

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

prices. As a result of a greater increase in imports over exports, the trade surplus of goods weakened to US$26,862 million, a decline of 12.1 percent from the previous year.

As indicated by customs statistics, the top three trading partners of Taiwan in 2010 were Mainland China including Hong Kong (hereafter referred to as Mainland China), the US, and Japan. Exports to these three countries accounted for 59.9 percent of total exports, while imports from the three made up 45.7 percent of total imports.

In terms of Taiwan's trade with Mainland China, exports stood at a historic high of US$114,747 million in 2010, up by 37.1 percent from the previous year. In the first half of 2010, when the world emerged from recession and demand for Taiwan's IT exports was restored—notably for electrical machinery and equipment and optical products—exports to Mainland China surged by 61.9 percent.

Direction of Trade in Goods by Country

Unit: %

	2010			2009		
	Amount (US$ Million)	Share	Annual Change	Amount (US$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	114,747	41.8	37.1	83,694	41.1	-15.9
U. S. A.	31.469	11.5	33.6	23,553	11.6	-23.5
Europe	29,381	10.7	30.1	22,577	11.1	-24.6
Southeast Asia 6*	41,361	15.1	37.2	30,148	14.8	-21.5
Japan	18,024	6.6	24.3	14,502	7.1	-17.4
Rest of the World	39,661	14.4	35.8	29,201	14.3	-25.8
Total	274,643	100.0	34.8	203,675	100.0	-20.3
Imports						
Japan	51,930	20.7	43.4	36,220	20.8	-22.1
U. S. A.	25,373	10.1	39.8	18,154	10.4	-31.0
Europe	26,013	10.3	33.7	19,456	11.2	-20.4
Southeast Asia 6*	28,839	11.5	45.9	19,762	11.3	-22.8
Mainland China (including Hong Kong)	37,582	14.9	47.1	25,546	14.7	-22.3
Rest of the World	81,657	32.5	47.8	55,233	31.7	-34.8
Total	251,395	100.0	44.2	174,371	100.0	-27.5

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

In the second half of 2010, due to Mainland China's contractionary monetary policies and a high base effect, the export growth rate decelerated to 19.2 percent. The share of exports to Mainland China in total exports continued to rise by 0.7 of a percentage point to 41.8 percent. Mainland China remained Taiwan's largest export market in 2010.

Imports from Mainland China posted a record high of US$37,582 million, delivering substantial growth of 47.1 percent. Mainland China remained the second largest source of imports as its share in total imports continued to rise to 14.9 percent in 2010. As labor division among Taiwanese industries across the Taiwan Strait deepened, Taiwan's stronger export performance and rising raw material prices for the year contributed to stronger growth in imports of steel, organic chemicals, and electrical machinery and equipment and related parts. The bilateral trade surplus with Mainland China grew by 32.7 percent to US$77,165 million for the year. Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US increased by 33.6 percent in 2010. The share of exports to the US in total exports slipped to 11.5 percent, mostly attributable to competition from Chinese products and the outward relocation (mainly to Mainland China) of local industries. Imports from the US grew by 39.8 percent, but its share in total imports dropped further to 10.1 percent, compared with 10.4 percent in 2009. Because exports expanded by a greater amount, the bilateral trade surplus with the US increased to US$6,096 million, representing a growth rate of 12.9 percent. However, the US dropped from the second to the third largest source of Taiwan's trade surplus in 2010.

Exports to Japan increased by 24.3 percent in 2010, while its share in total exports fell to 6.6 percent. Imports from Japan rose by 43.4 percent from a year earlier, with its share in total imports slightly down to 20.7 percent. Japan remained Taiwan's largest source of imports. The trade deficit with Japan widened to US$33,907 million for the year.

Exports to Europe increased by 30.1 percent in 2010, while its share in total exports continued to slip to 10.7 percent. Imports from Europe grew by 33.7 percent, with its share in total imports further down to 10.3 percent. The trade surplus with Europe increased from US$3,121 million in 2009 to US$3,368 million.

Exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, increased by 37.2 percent. The combined share of exports to these countries in total exports climbed up to 15.1 percent. In particular, exports to Vietnam rose by 25.8 percent, making Vietnam the second largest source of Taiwan's trade surplus in 2010, surpassing the US. Imports from these countries grew by 45.9 percent, with the share in total imports up to 11.5 percent. The trade surplus with the six countries widened to US$12,522 million in 2010 compared with US$10,386 million in 2009.

(2) Services

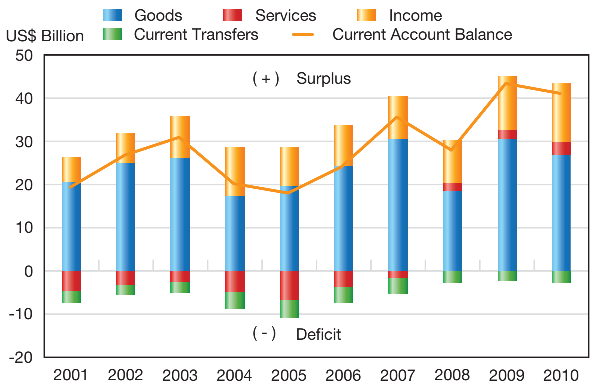
In 2010, both receipts and payments of trade in services recorded historic highs. Service receipts increased by US$9,123 million to US$40,897 million and payments grew by US$8,200 million to US$37,983 million.

Of the various components of the services account, receipts with respect to transportation increased by US$3,417 million to US$9,757 million, mainly due to more receipts from domestic air and sea carriers for international shipment. Transportation payments also grew by US$1,941 million to US$9,724 million, largely because of increasing payments to foreign carriers for import freight and to foreign airlines in passenger fares. Consequently, the US$1,441 million net payments with regard to transportation recorded a year earlier turned to net receipts of US$35 million in 2010, from a payment of US$1,441 million recorded a year earlier.

Travel receipts increased by US$1,832 million to US$8,648 million, mainly because visitors from Mainland China grew significantly by 67.8 percent. Moreover, travel payments for the year rose by US$1,558 million to US$9,358 million, because both the number and the expenditure of overseas visits by residents increased amid the economic recovery. Overall, net travel payments registered US$710 million for the year.

As for other services, receipts and payments from other services reached record highs. Receipts from other services increased by US$3,874 million to US$22,490 million, mainly because of significant growth in net merchanting receipts. Other services payments grew by US$4,701 million to US$18,901 million, largely due to remarkable increases in royalties, license fees, and trade-related brokerage. As a result, the surplus in net other services shrank from US$4,416 million in 2009 to US$3,589 million in 2010.

Current Account



Source: Balance of Payments, CBC.

(3) Income

Income receipts increased by US$2,906 million to US$23,245 million in 2010, which was attributable to the increases in interest earnings from residents' foreign exchange assets. On the other hand, income payments for the year amounted to US$9,689 million, US$1,862 million more than in 2009, resulting from the increase in non-residents' direct investment income. The surplus on the income account increased by US$1,044 million to US$13,556 million in 2010, registering its highest level ever.

(4) Current Transfers

Current transfer receipts and payments amounted to US$5,249 million and US$7,964 million, respectively. As a result, net current transfer payments increased from US$2,145 million in 2009 to US$2,715 million, mainly due to the increase in outward remittances by residents to support their overseas relatives.

Slightly Widened Capital Account Deficit

In 2010, the capital account increased by US$17 million to a deficit of US$113 million. This was mainly due to the increased outward remittances of migrants.

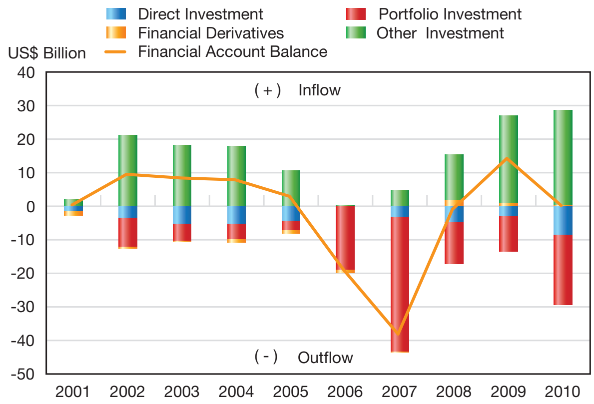
Net Outflows in the Financial Account

With regard to the financial account, since capital inflows were almost equal to capital outflows in 2010, the financial account showed a small net outflow of US$607 million. In terms of sub-categories, other investment posted a net inflow of US$28,075 million, while direct investment and portfolio investment registered net outflows of US$8,646 million and US$20,662 million, respectively.

(1) Direct Investment

Direct investment abroad by residents showed a net outflow of US$11,127 million, with an increase of US$5,250 million. On the other hand, direct investment in Taiwan by nonresidents registered a net inflow of US$2,481 million, US$324 million less than in the previous year. According to the statistics of approved cases, direct investment in Mainland China by residents increased by 101.9 percent to US$12,230 million, while direct investment in other areas by residents declined by 6.1 percent to US$2,820 million, revealing that Mainland China remained the major recipient of Taiwan's direct investment abroad. The main targets for investment included the electronic parts and components manufacturing industry, the computer and electronic manufacturing industry, and the real estate industry. As a result, direct investment registered a net outflow of US$8,646 million in 2010, US$5,574 million more than in 2009.

Financial Account



Source: *Balance of Payments*, CBC.

(2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net outflow of US$33,473 million, mainly accounted for by investment in overseas debt securities by insurance companies and overseas mutual funds investment by residents. On the other hand, local portfolio investment by nonresidents posted a net inflow of US$12,811 million, mainly due to foreign capital inflows for investment in domestic stock and bond markets. The encouraging factors included quantitative easing policy in the US, the better cross-strait relationship and the portfolio allocation of international funds in Asia, which were attracted by robust economic recovery in East Asia. Consequently, the net outflow of portfolio investment increased to US$20,662 million in 2010, compared to US$10,327 million in 2009.

(3) Financial Derivatives

Financial derivatives recorded a net inflow of US$626 million, mainly because the banking sector took profits from financial derivatives transactions such as interest rate swaps and foreign exchange swaps, and other sectors also gained from the operation of futures.

(4) Other Investment

Other investment abroad by residents recorded a net inflow of US$10,846 million, representing a reduction in other claims on nonresidents by residents. In 2010, the US Federal Reserve maintained its quantitative easing policy, and it was expected that the US dollar would depreciate against other currencies. Consequently, the private sector withdrew overseas deposits, and the banking sector decreased short-term loans extended to foreign banks. Other local investment by nonresidents also showed a net inflow of US$17,229 million, mainly attributable to the borrowings from overseas affiliates by resident offshore banking units (OBUs). Therefore, the net inflow of other investment substantially increased to US$28,075 million in 2010.

Significant Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US$40,173 million, as a result of the current account surplus.