

### 3. Balance of Payments

In 2011, the current account surplus, which accounted for 8.6 percent of nominal GNP, increased to US\$41,270 million. This represented growth of 3.5 percent and was due to greater increases in the goods and services surpluses than in the current transfer deficit, despite a decline in the income surplus. However, the financial account still reported a net outflow of US\$31,621 million, as direct investment abroad and portfolio investment by non-residents exhibited record-high net outflows of US\$14,772 million and US\$16,188 million, respectively. Considering the current account surplus was mostly offset by the net outflow in the financial account, the overall balance recorded a small surplus of US\$6,239 million, which was reflected in the increase of foreign reserve assets held by the Bank.

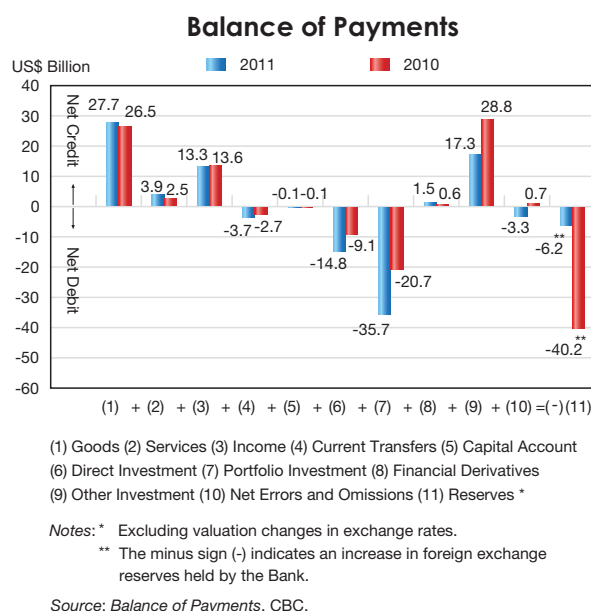
#### Widening Current Account Surplus

The current account consists of four major items—goods, services, income, and current transfers.

##### (1) Goods

As the protracted European sovereign debt crisis continued to undermine global economic growth, both Taiwan's exports and imports delivered slower growth, though hitting record levels in terms of value in 2011. The value of exports increased by 12.1 percent to US\$307,070 million, mainly driven by the stronger demand for ICT, electronic, and mechanical products. The value of imports increased by 13.0 percent to US\$279,376 million, fueled in large part by higher international energy prices. Due to a larger expansion of exports over imports, the trade surplus of goods widened to US\$27,694 million, an increase of 4.5 percent from the previous year.

As indicated by customs statistics, the top three trading partners of Taiwan in 2011 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Japan. Exports to these three countries accounted for 57.9 percent of total exports, while imports from the three made up 43.8 percent of total imports.



## Balance of Payments

Unit: US\$ Million

|                                      | 2011     | 2010     |
|--------------------------------------|----------|----------|
| A. Current Account                   | 41,270   | 39,873   |
| Goods: exports f.o.b.                | 307,070  | 273,823  |
| Goods: imports f.o.b.                | -279,376 | -247,310 |
| Balance on Goods                     | 27,694   | 26,513   |
| Services: credit                     | 45,951   | 40,357   |
| Services: debit                      | -42,002  | -37,864  |
| Balance on Services                  | 3,949    | 2,493    |
| Income: credit                       | 24,965   | 23,265   |
| Income: debit                        | -11,648  | -9,688   |
| Balance on Income                    | 13,317   | 13,577   |
| Current transfers: credit            | 5,548    | 5,251    |
| Current transfers: debit             | -9,238   | -7,961   |
| Balance on Current Transfers         | -3,690   | -2,710   |
| B. Capital Account                   | -119     | -116     |
| Total, Groups A plus B               | 41,151   | 39,757   |
| C. Financial Account                 | -31,621  | -309     |
| Direct investment abroad             | -12,787  | -11,574  |
| Direct investment in R.O.C. (Taiwan) | -1,985   | 2,492    |
| Portfolio investment assets          | -19,483  | -33,487  |
| Portfolio investment liabilities     | -16,188  | 12,823   |
| Financial derivatives assets         | 6,342    | 4,792    |
| Financial derivatives liabilities    | -4,838   | -4,166   |
| Other investment assets              | -7,999   | 12,317   |
| Other investment liabilities         | 25,317   | 16,494   |
| Total, Groups A through C            | 9,530    | 39,448   |
| D. Net Errors And Omissions          | -3,291   | 725      |
| Total, Groups A through D            | 6,239    | 40,173   |
| E. Reserves and Related Items*       | -6,239   | -40,173  |

Note: \* Excluding valuation changes in exchange rates.

Source: Balance of Payments, CBC.

In terms of Taiwan's trade with Mainland China, exports stood at a historical high of US\$124,054 million in 2011, up by 8.1 percent from the previous year. From January to October, Mainland China extended its contractionary monetary policies and rolled out measures aimed at industrial upgrade. These, in addition to a high base effect, caused export growth to decelerate to 10.4 percent. Furthermore, the downward spiral of the European debt crisis dampened consumption in Europe and the US, undermining demand for Mainland China's exports and in turn Mainland China's demand for Taiwan's. As a consequence, exports declined by 2.5 percent and 3.0 percent in November and December, respectively, with large reductions in plastics and electrical machinery products. The share of exports to Mainland China in total exports slipped by 1.6 percentage points to 40.2 percent. Nevertheless, Mainland China remained Taiwan's largest export market in 2011.

Imports from Mainland China posted a record high of US\$45,283 million, reflecting a moderate

## Direction of Trade in Goods by Country

Unit: %

|                                      | 2011                     |       |                  | 2010                     |       |                  |
|--------------------------------------|--------------------------|-------|------------------|--------------------------|-------|------------------|
|                                      | Amount<br>(US\$ Million) | Share | Annual<br>Change | Amount<br>(US\$ Million) | Share | Annual<br>Change |
| Exports                              |                          |       |                  |                          |       |                  |
| Mainland China (including Hong Kong) | 124,054                  | 40.2  | 8.1              | 114,742                  | 41.8  | 37.1             |
| Southeast Asia 6*                    | 50,741                   | 16.5  | 22.7             | 41,358                   | 15.1  | 37.2             |
| U. S. A.                             | 36,365                   | 11.8  | 15.6             | 31,466                   | 11.5  | 33.6             |
| Europe                               | 31,214                   | 10.1  | 6.3              | 29,372                   | 10.7  | 30.1             |
| Japan                                | 18,238                   | 5.9   | 1.3              | 18,010                   | 6.6   | 24.2             |
| Rest of the World                    | 47,687                   | 15.5  | 20.3             | 39,653                   | 14.4  | 35.8             |
| Total                                | 308,299                  | 100.0 | 12.3             | 274,601                  | 100.0 | 34.8             |
| Imports                              |                          |       |                  |                          |       |                  |
| Japan                                | 52,211                   | 18.5  | 0.6              | 51,917                   | 20.7  | 43.3             |
| Mainland China (including Hong Kong) | 45,283                   | 16.1  | 20.5             | 37,574                   | 15.0  | 47.1             |
| Southeast Asia 6*                    | 32,659                   | 11.6  | 13.5             | 28,783                   | 11.5  | 45.6             |
| Europe                               | 29,590                   | 10.5  | 13.8             | 26,005                   | 10.4  | 33.7             |
| U. S. A.                             | 25,759                   | 9.1   | 1.5              | 25,379                   | 10.1  | 39.8             |
| Rest of the World                    | 96,103                   | 34.1  | 17.8             | 81,578                   | 32.5  | 47.7             |
| Total                                | 281,605                  | 100.0 | 12.1             | 251,236                  | 100.0 | 44.1             |

Note: \* Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

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

growth of 20.5 percent and a share of 16.1 percent in total imports in 2011. Mainland China remained Taiwan's second largest source of imports. The increase was attributable to stronger demand for steel and organic chemicals as industrial raw material prices hovered at high levels and Taiwanese industries continued to employ a strategic division of labor across the Taiwan Strait. The bilateral trade surplus with Mainland China grew by 2.1 percent to US\$78,771 million for the year. Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US increased by 15.6 percent in 2011. The share of exports to the US in total exports rose to 11.8 percent, mainly spurred by robust demand for smartphones, which contributed to a strong growth of 46.6 percent in Taiwan's ICT exports to the US. Imports from the US grew by a slight 1.5 percent, while its share in total imports dropped further to 9.1 percent, compared with 10.1 percent a year earlier. Due to exports expanding by a greater amount, the bilateral trade surplus with the US significantly widened to US\$10,607 million, representing a substantial growth of 74.3 percent. The US was again the second largest source of Taiwan's trade surplus for the year.

Exports to Japan registered a slower growth of 1.3 percent in 2011, and its share in total exports continued to fall to 5.9 percent from a year earlier. Imports from Japan eked out growth of a mere 0.6 percent, with its share in total imports further down to 18.5 percent. However, Japan remained Taiwan's largest source of imports. The trade deficit with Japan slightly increased to US\$33,972 million for the year.

Exports to Europe increased by 6.3 percent in 2011, but its share in total exports slipped to 10.1 percent. Imports from Europe grew by 13.8 percent, with its share in total imports slightly up to 10.5 percent. The trade surplus with Europe reduced by more than half from US\$3,367 million in 2010 to US\$1,624 million as a result of a larger increase in imports.

Bolstered by buoyant economic growth in Southeast Asia—including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam—exports to the six countries increased by 22.7 percent in 2011. The combined share of exports to these countries in total exports topped 16.5 percent. Imports from these countries grew by 13.5 percent, with the share in total imports marginally rising to 11.6 percent. In total, the trade surplus with the six countries expanded from US\$12,575 million in 2010 to US\$18,082 million, with Singapore and Vietnam being the third and the fourth largest sources of Taiwan's trade surplus.

## **(2) Services**

In 2011, both receipts and payments of trade in services presented historic highs. Service receipts grew by US\$5,594 million to US\$45,951 million, while payments increased by US\$4,138 million to US\$42,002 million.

Of the various components of the services account, transportation receipts declined by US\$78 million to US\$9,687 million, reflecting less receipts from domestic air and sea carriers for international shipment amid a global economic slowdown. Transportation payments grew by US\$347 million to US\$10,242 million, resulting mainly from the increases in passenger fares paid to foreign airlines and in repairs on aircraft. Overall, net transportation payments increased to US\$555 million for the year, in comparison with US\$131 million the previous year.

Travel receipts increased by US\$2,323 million to US\$11,044 million as the average daily expenditure per visitor grew by 15.8 percent and the number of visitors in total registered a record-high figure of 6.1 million, of which arrivals from Japan, Taiwan's second largest source of visitors, grew the most and posted a 19.9 percent gain in 2011. Meanwhile, travel payments increased by US\$755 million to US\$10,112 million, due to a stronger NT dollar against the US dollar compared to a year earlier, which encouraged modest growth in the number and the expenditure of overseas visits by residents. Both receipts and payments of trade in travel showed record-high figures. For the first time, the travel balance, which presented a net payment of US\$636 million in 2010, turned into a net receipt of US\$932 million in 2011.

With respect to other services, both receipts and payments reached record highs as well. Other services receipts increased by US\$3,349 million to US\$25,220 million, mainly attributable to increases in net proceeds from merchanting as well as professional and technical services. Other services

payments increased by US\$3,036 million to US\$21,648 million on account of payments for patent lawsuits by Taiwan's ICT firms and an increase in royalties and license fees. In total, the surplus in net other services expanded from US\$3,259 million in 2010 to US\$3,572 million in 2011.

### (3) Income

In 2011, income receipts increased by US\$1,700 million to a historical high of US\$24,965 million, attributable to the increase in interest earnings generated by residents' foreign exchange assets. Meanwhile, income payments amounted to US\$11,648 million, US\$1,960 million more than in 2010, mostly attributable to the increase in nonresidents' investment income in local equity securities. Consequently, the surplus on the income account slightly contracted from US\$13,577 million in 2010 to US\$13,317 million for the year of 2011, the second highest level ever recorded.

### (4) Current Transfers

For the year of 2011, the respective figures of current transfer receipts and payments amounted to US\$5,548 million and US\$9,238 million, both at the highest levels in history. As a whole, net current transfer payments increased from US\$2,710 million in 2010 to US\$3,690 million because of anti-trust penalties imposed by the US and European countries on Taiwan's major LCD panel producers and residents' increased outward remittances as relief donations in response to the Japanese earthquake.

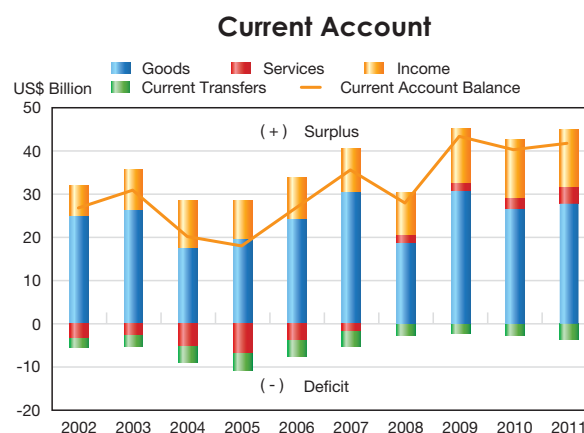
### Slightly Widened Capital Account Deficit

In 2011, the capital account increased by US\$3 million to a deficit of US\$119 million. This was mainly due to the increased outward remittances of migrants.

### Net Outflows in the Financial Account

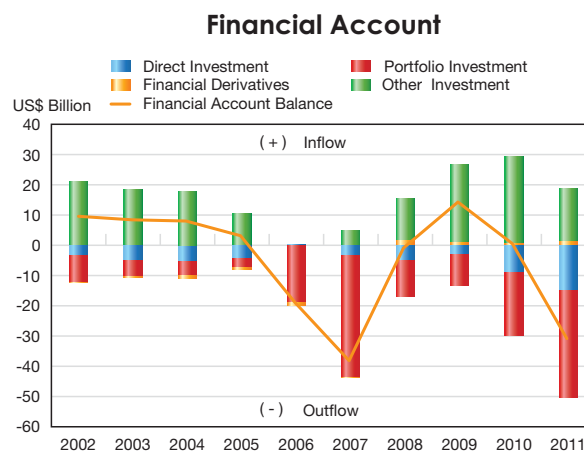
The financial account this year recorded a significant net outflow of US\$31,621 million on the grounds that residents increased their overseas portfolio investments, and foreign investors withdrew their holdings in the domestic stock markets on concerns over the grim economic outlook in the US and European countries. In terms of sub-categories, direct investment and portfolio investment registered net outflows of US\$14,772 million and US\$35,671 million, respectively, while other investment posted a net inflow of US\$17,318 million.

### (1) Direct Investment



Source: Balance of Payments, CBC.

Direct investment abroad by residents accounted for a net outflow of US\$12,787 million, an increase of US\$1,213 million compared with 2010. Direct investment in Taiwan by nonresidents recorded a net outflow of US\$1,985 million for the first time, as foreign enterprises transferred their equity holdings to local enterprises. According to the statistics of approved cases, residents' direct investment in Mainland China and in other areas reported US\$13,100 million and US\$3,697 million, respectively, suggesting that China remained the major recipient of Taiwan's direct investment abroad after the implementation of the Economic Cooperation Framework Agreement in the beginning of 2011. Furthermore, the main investment targets included the financial industry, the electronic parts and components manufacturing industry, the banking and insurance industry, and the information and communications industry. Overall, direct investment exhibited a net outflow of US\$14,772 million in 2011, US\$5,690 million more than in 2010.



## (2) Portfolio Investment

In 2011, portfolio investment abroad by residents exhibited a net outflow of US\$19,483 million, mostly attributable to investment in overseas debt securities by insurance companies and overseas mutual funds investment by residents. However, local portfolio investment by nonresidents turned into a net outflow of US\$16,188 million, the highest level ever recorded. The exodus was mainly due to the growing concerns over the US credit downgrade and the sovereign debt crisis in Europe, which triggered massive redemption of share holdings by foreign investors in the local stock market. This was most significant in the third quarter of 2011 when the crisis deteriorated, resulting in a net outflow of US\$15,617 million from nonresidents' investments in equity securities, the biggest single quarter net outflow in history. As a whole, the net outflow of portfolio investment increased to US\$35,671 million for the year, compared to US\$20,664 million in 2010.

## (3) Financial Derivatives

Financial derivatives recorded a net inflow of US\$1,504 million, due in large part to gains reaped by domestic banking units (DBUs) from transactions of derivative instruments involving foreign exchange swaps, cross currency swaps (CCS), and interest rate swaps (IRS), as well as by other sectors from investment in futures.

#### **(4) Other Investment**

In 2011, other investment abroad by residents swung into a net outflow of US\$7,999 million from a net inflow of US\$12,317 million a year earlier. The outflow mainly came from residents' offshore banking units (OBUs) which increased lending to nonresidents for the year. On the other hand, other local investment by nonresidents registered a record-high net inflow of US\$25,317 million, mainly attributable to the borrowings from overseas affiliates by the banking sector. To sum up, the net inflow of other investment diminished to US\$17,318 million in 2011.

#### **Modest Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the Bank increased by US\$6,239 million as a result of the current account surplus.