

### 3. Balance of Payments

In 2012, the current account surplus, which accounted for 9.8 percent of nominal GNP, increased to US\$49,550 million. This represented growth of 20.2 percent and was due to increases in goods, services and income surpluses, and a decrease in the current transfer deficit. However, the financial account still reported a net outflow of US\$31,503 million, as direct investment abroad and portfolio investment by residents exhibited record-high net outflows of US\$13,031 million and US\$45,361 million, respectively. Considering the current account surplus was partly offset by the net outflow in the financial account, the overall balance recorded a surplus of US\$15,484 million, which was reflected in the increase in foreign reserve assets held by the Bank.

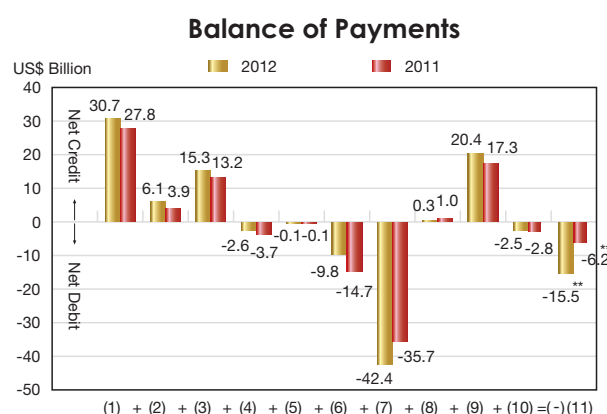
#### Widening Current Account Surplus

The current account consists of four major items, namely goods, services, income, and current transfers. In 2012, the surpluses of goods, services and income all reached historical highs.

##### (1) Goods

With a weakened global economy and a high base effect, both Taiwan's exports and imports registered negative growth in 2012. The value of exports decreased by 2.4 percent to US\$299,756 million, mainly driven by soft global demand for ICT products. The value of imports decreased by 3.6 percent to US\$269,021 million, mainly accounted for by declines in the chemicals, basic metals, machinery, and electronics categories. Owing to a larger contraction in imports over exports, the goods surplus widened to US\$30,735 million, an increase of 10.4 percent from the previous year.

As indicated by customs statistics, the top three export partners of Taiwan in 2012 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Singapore, accounting for 57.0 percent of total exports. Furthermore, the top three importing partners were Japan, Mainland China, and the US, with a combined share of 42.4 percent.



(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

	2012	2011
A. Current Account	49,550	41,230
Goods: Exports f.o.b.	299,756	307,030
Goods: Imports f.o.b.	-269,021	-279,182
Balance on Goods	30,735	27,848
Services: Credit	49,046	45,920
Services: Debit	-42,909	-42,026
Balance on Services	6,137	3,894
Income: Credit	25,861	24,833
Income: Debit	-10,584	-11,654
Balance on Income	15,277	13,179
Current Transfers: Credit	5,446	5,547
Current Transfers: Debit	-8,045	-9,238
Balance on Current Transfers	-2,599	-3,691
B. Capital Account	-100	-119
Total, Groups A plus B	49,450	41,111
C. Financial Account	-31,503	-32,046
Direct Investment Abroad	-13,031	-12,766
Direct Investment in R.O.C. (Taiwan)	3,205	-1,957
Portfolio Investment Assets	-45,361	-19,503
Portfolio Investment Liabilities	2,914	-16,188
Financial Derivatives Assets	4,526	5,777
Financial Derivatives Liabilities	-4,198	-4,739
Other Investment Assets	5,771	-7,988
Other Investment Liabilities	14,671	25,318
Total, Groups A through C	17,947	9,065
D. Net Errors and Omissions	-2,463	-2,826
Total, Groups A through D	15,484	6,239
E. Reserves and Related Items*	-15,484	-6,239

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

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$118,646 million in 2012, down by 4.4 percent from the previous year. As a result of Mainland China rolling out measures aimed at industrial upgrade, intermediate goods imported from Taiwan were substituted by Mainland China's local industry chain, reducing the share of exports to Mainland China by 0.8 percentage points to 39.4 percent. Nevertheless, Mainland China remained Taiwan's largest export market in 2012.

Imports from Mainland China decreased by 3.8 percent to US\$43,567 million, attributable to weak demand for industrial raw materials, such as chemicals and steel. With a share of 16.1 percent, Mainland China remained Taiwan's second largest source of imports. The value of exports and imports both shrank in 2012, lowering Taiwan's foreign trade dependence on Mainland China. The trade surplus with Mainland China dropped by 4.7 percent to US\$75,079 million in 2012. However, Mainland China remained the largest source of Taiwan's trade surplus.

## Direction of Trade in Goods by Country

Unit: %

	2012			2011		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	118,646	39.4	-4.4	124,044	40.2	8.1
Southeast Asia 6*	55,713	18.5	9.8	50,738	16.5	22.7
U. S. A.	32,976	10.9	-9.3	36,364	11.8	15.6
Europe	28,765	9.6	-7.8	31,204	10.1	6.2
Japan	18,989	6.3	4.2	18,228	5.9	1.2
Rest of the World	46,091	15.3	-3.3	47,678	15.5	20.2
Total	301,181	100.0	-2.3	308,257	100.0	12.3
Imports						
Japan	47,574	17.6	-8.9	52,200	18.5	0.5
Mainland China (including Hong Kong)	43,567	16.1	-3.8	45,272	16.1	20.5
Southeast Asia 6*	31,364	11.6	-3.9	32,636	11.6	13.4
Europe	28,266	10.5	-4.5	29,586	10.5	13.8
U. S. A.	23,604	8.7	-8.4	25,759	9.2	1.5
Rest of the World	96,098	35.5	0.1	95,985	34.1	17.7
Total	270,473	100.0	-3.9	281,438	100.0	12.0

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

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

Exports to the US recorded a total value of US\$32,976 million in 2012, decreasing by 9.3 percent from 2011, comprising a lower share in total exports of 10.9 percent. Taiwan's ICT products exports to the US almost reduced by half, from US\$9,158 million in 2011 to US\$4,599 million in 2012, mainly induced by a downturn in US demand for smart phones. Imports from the US slipped by 8.4 percent, and their share in total imports dropped further to 8.7 percent, compared with 9.2 percent a year earlier. The trade surplus with the US narrowed to US\$9,372 million. The US, Taiwan's second largest source of trade surplus in the prior year, became the third in 2012.

Exports to Japan posted a record high value of US\$18,989 million, reflecting a growth of 4.2 percent and a share of 6.3 percent in total exports in 2012, mainly spurred by the demand for electronics products. Imports from Japan slipped by 8.9 percent to US\$47,574 million, with its share in total imports further declining to 17.6 percent. However, Japan remained Taiwan's largest source of imports. The trade deficit with Japan decreased to US\$28,585 million for the year.

Sustained fiscal austerity measures executed by European countries continued to suppress the region's consumption. Exports to Europe decreased by 7.8 percent in 2012, and their share in total exports fell to 9.6 percent. Imports from Europe declined by 4.5 percent, with their share in total imports remaining at 10.5 percent. Therefore, the trade surplus with Europe reduced substantially, from US\$1,618 million in 2011 to US\$499 million as a result of a larger decrease in exports over imports.

Triggered by Southeast Asia's solid economic growth, exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased

by 9.8 percent to US\$55,713 million in 2012, hitting a new high in 2012. The combined share of exports to these countries in total exports topped 18.5 percent. Imports from these countries went down by 3.9 percent, with a share of 11.6 percent in total imports. In sum, the trade surplus with these six countries expanded from US\$18,103 million in 2011 to US\$24,349 million, with Singapore and the Philippines being the second and the fourth largest sources of Taiwan's trade surplus.

## (2) Services

In 2012, both receipts and payments of trade in services presented historical highs. Service receipts grew by US\$3,126 million to US\$49,046 million, while payments increased by US\$883 million to US\$42,909 million.

Of the various components of the services account, transportation receipts grew by US\$273 million to US\$9,969 million, reflecting an increase in international passenger fares received by domestic air carriers. Transportation payments also grew by US\$268 million to US\$10,536 million, resulting mainly from higher passenger fares paid to foreign airlines. Overall, net transportation payments slightly decreased to US\$567 million in the year from the US\$572 million of the previous year.

Travel receipts increased by US\$642 million to US\$11,707 million as the total number of visitors registered a record-high figure of 7.31 million, of which arrivals from Mainland China, Taiwan's largest source of visitors, grew the most with a 45.0 percent gain in 2012. Meanwhile, travel payments increased by US\$518 million to US\$10,630 million. The main reason was a modest 6.8 percent growth in the number of overseas visits by residents, encouraged by visits to Japan, which witnessed the largest increase at 37.3 percent. Both receipts and payments of trade in travel showed record-high figures. In sum, net travel receipts grew from US\$953 million in 2011 to US\$1,077 million in 2012.

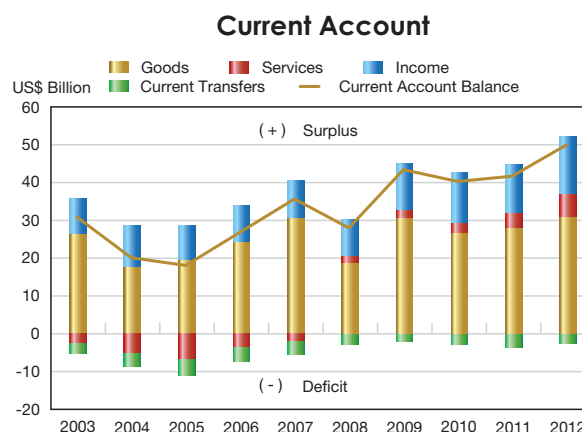
Other services receipts increased by US\$2,211 million to US\$27,370 million, mainly attributable to increases in net proceeds from merchanting. Other services payments slightly increased by US\$97 million to US\$21,743 million, mainly because of payments for professional and technical services. In all, the surplus in net other services expanded from US\$3,513 million in 2011 to US\$5,627 million in 2012.

## (3) Income

In 2012, income receipts rose by US\$1,028 million to a historical high of US\$25,861 million, mainly attributable to the increases in interest earnings generated by residents' foreign exchange assets and in dividends of residents' portfolio investments. Meanwhile, income payments amounted to US\$10,584 million, US\$1,070 million less than in 2011, mostly attributable to the decrease in non-residents' investment income in local equity securities. Consequently, the surplus on the income account expanded from US\$13,179 million in 2011 to US\$15,277 million for the year of 2012, the highest level on record.

#### (4) Current Transfers

For the year of 2012, the respective figures of current transfer receipts and payments amounted to US\$5,446 million and US\$8,045 million. As a whole, the deficit in net current transfers shrank to US\$2,599 million in 2012 from the US\$3,691 million of the previous year when 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 pushed up current transfer payments in 2011.



Source: Balance of Payments, CBC.

#### Shrinking Capital Account Deficit

The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers) and the acquisition and disposal of non-produced, non-financial assets. In 2012, the capital account continued to exhibit a deficit, but the gap narrowed by US\$19 million to US\$100 million, mainly owing to decreased outward remittances by migrants.

#### Net Outflows in the Financial Account

The financial account for the year 2012 recorded a significant net outflow of US\$31,503 million, mainly because residents increased their overseas portfolio investments. In terms of sub-categories, direct investment and portfolio investment registered net outflows of US\$9,826 million and US\$42,447 million, respectively, while other investment posted a net inflow of US\$20,442 million.

##### (1) Direct Investment

Direct investment abroad by residents recorded a net outflow of US\$13,031 million, an increase of US\$265 million compared with 2011. According to the statistics of approved cases, residents' direct investment in Mainland China and in other areas reported US\$10,924 million and US\$8,099 million, respectively, suggesting that Mainland China remained a major recipient of Taiwan's direct investment abroad after the implementation of the Economic Cooperation Framework Agreement in early 2011. The main investment target sectors included banking and insurance, wholesale and retail, electronic parts and components manufacturing, information and communications, and real estate. On the other hand, direct investment in Taiwan by non-residents reverted to a net inflow of US\$3,205 million, an increase of US\$5,162 million compared with a net outflow of US\$1,957 million in 2011. The main reason behind the marked increase was that for the year of 2011, foreign enterprises

transferred their equity holdings to local enterprises. Overall, direct investment exhibited a net outflow of US\$9,826 million in 2012 compared with US\$14,723 million in 2011.

## (2) Portfolio Investment

In 2012, portfolio investment abroad by residents showed a record net outflow of US\$45,361 million, mostly attributable to investment in overseas debt securities by insurance companies and overseas mutual funds investment by residents. On the other hand, local portfolio investment by non-residents swung to a net inflow of US\$2,914 million, as the US quantitative easing policy triggered massive foreign capital inflows for investment in Taiwan's stock market, resulting in a net inflow of US\$2,906 million in non-residents' equity securities investments. As a whole, the net outflow of portfolio investment reached a historical high of US\$42,447 million, compared to US\$35,691 million in 2011.

## (3) Financial Derivatives

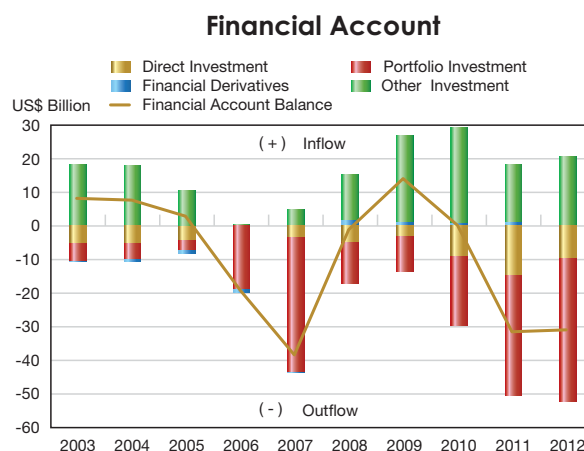
Financial derivatives recorded a net inflow of US\$328 million, due in large part to gains reaped by the banking sector from transactions of derivative instruments involving foreign exchange swaps, cross currency swaps (CCS), and interest rate swaps (IRS).

## (4) Other Investment

In 2012, other investment abroad by residents turned to a net inflow of US\$5,771 million from a net outflow of US\$7,988 million a year earlier. The main reason was that the US Federal Reserve further expanded its quantitative easing policy, boosting expectations of a weaker US dollar. Consequently, the private sector withdrew their overseas deposits. Meanwhile, other inward investment by non-residents also showed a net inflow of US\$14,671 million, largely attributable to the borrowings from overseas affiliates by the banking sector, short-term liabilities of the private sector, and the cash collateral deposited by foreign investors for local securities lending. To sum up, the net inflow of other investment increased to US\$20,442 million in 2012.

## Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$15,484 million as a result of the current account surplus.



Source: Balance of Payments, CBC.