

### 3. Balance of Payments

In 2013, the current account surplus, which accounted for 11.3 percent of nominal GNP, increased to a historical high of US\$57,380 million. This represented growth of 13.2 percent as record increases in the goods and services surpluses more than offset a wider current transfer deficit and a narrower income surplus. The net outflow on the financial account reached a new high of US\$41,164 million, as direct investment abroad, investment in overseas debt securities by residents, and banks' deposits with overseas branches all exhibited record-high net outflows. Because the current account surplus was partly offset by the net outflow in the financial account, the overall balance recorded a surplus of US\$11,318 million, which was reflected in the increase in foreign reserve assets held by the CBC.

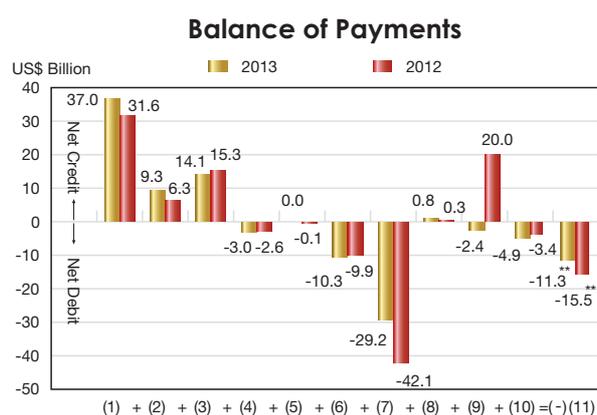
#### Widening Current Account Surplus

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

##### 1. Goods

Affected by the weakened economic conditions of advanced economies, the value of exports only increased modestly by 1.4 percent to US\$304,633 million. The value of imports decreased by 0.4 percent to US\$267,619 million, mainly accounted for by declines in imports of crude oil and basic metals. As a result of an increase in exports and a decrease in imports, the goods surplus widened to US\$37,014 million in 2013, hitting a new high in history.

As indicated by customs statistics, the top three export partners of Taiwan in 2013 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Singapore, accounting for a combined share of 56.7 percent of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 41.7 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 CBC.

Source: *Balance of Payments*, CBC.

## Balance of Payments

Unit: US\$ Million

|                                      | (1)<br>2013 | (2)<br>2012 | (1)-(2) |
|--------------------------------------|-------------|-------------|---------|
| A. Current Account                   | 57,380      | 50,672      | 6,708   |
| Goods: exports f.o.b.                | 304,633     | 300,430     | 4,203   |
| Goods: imports f.o.b.                | -267,619    | -268,822    | 1,203   |
| Balance on Goods                     | 37,014      | 31,608      | 5,406   |
| Services: credit                     | 51,640      | 49,111      | 2,529   |
| Services: debit                      | -42,371     | -42,763     | 392     |
| Balance on Services                  | 9,269       | 6,348       | 2,921   |
| Income: credit                       | 25,169      | 25,833      | -664    |
| Income: debit                        | -11,076     | -10,497     | -579    |
| Balance on Income                    | 14,093      | 15,336      | -1,243  |
| Current transfers: credit            | 6,154       | 5,445       | 709     |
| Current transfers: debit             | -9,150      | -8,065      | -1,085  |
| Balance on Current Transfers         | -2,996      | -2,620      | -376    |
| B. Capital Account                   | 6           | -83         | 89      |
| Total, Groups A plus B               | 57,386      | 50,589      | 6,797   |
| C. Financial Account                 | -41,164     | -31,673     | -9,491  |
| Direct investment abroad             | -14,336     | -13,137     | -1,199  |
| Direct investment in R.O.C. (Taiwan) | 3,996       | 3,207       | 789     |
| Portfolio investment assets          | -37,177     | -45,304     | 8,127   |
| Portfolio investment liabilities     | 7,980       | 3,213       | 4,767   |
| Financial derivatives assets         | 5,851       | 4,526       | 1,325   |
| Financial derivatives liabilities    | -5,082      | -4,198      | -884    |
| Other investment assets              | -50,037     | 4,746       | -54,783 |
| Other investment liabilities         | 47,641      | 15,274      | 32,367  |
| Total, Groups A through C            | 16,222      | 18,916      | -2,694  |
| D. Net Errors and Omissions          | -4,904      | -3,432      | -1,472  |
| Total, Groups A through D            | 11,318      | 15,484      | -4,166  |
| E. Reserves and Related Items*       | -11,318     | -15,484     | 4,166   |

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\$121,226 million in 2013, up by 2.2 percent from the previous year. As a result of Mainland China's measures aimed at industrial upgrade, intermediate goods imported from Taiwan were partly substituted by those produced by Mainland China's local industrial chain. This constituted the main reason for the slowdown of Taiwan's exports to Mainland China in the second half of the year. However, the share of exports to Mainland China still increased by 0.3 percentage points to 39.7 percent. Furthermore, Mainland China remained Taiwan's largest export market in 2013.

Imports from Mainland China grew by 1.6 percent to US\$44,251 million, attributable to demand for industrial raw materials such as steel. With a share of 16.4 percent, Mainland China became Taiwan's largest source of imports. The trade surplus with Mainland China increased by 2.5 percent

to US\$76,976 million in 2013, and Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US recorded a total value of US\$32,564 million in 2013, decreasing by 1.2 percent from 2012 and comprising a lower share in total exports of 10.7 percent. Taiwan's ICT products exports to the US reduced by 8.8 percent to US\$4,196 million, mainly induced by a downturn in US demand for smart phones. Imports from the US grew by 6.8 percent to US\$25,220 million, and their share in total imports increased to 9.3 percent, compared with 8.7 percent a year earlier. The trade surplus with the US narrowed to US\$7,345 million. The US, Taiwan's third largest source of trade surplus in the prior year, became the fourth in 2013.

Exports to Japan increased by 1.2 percent to US\$19,221 million, mainly boosted by the demand for Taiwan's electronics products. The share of exports to Japan remained at 6.3 percent. Imports from Japan slipped by 9.2 percent to US\$43,174 million, with their share in total imports further declining by 1.6 percentage points to 16.0 percent. Furthermore, Japan became Taiwan's second largest source of imports in 2013, after being the largest in 2012. The trade deficit with Japan decreased to US\$23,952 million.

Following a recession in the euro area caused by prolonged financial turmoil, exports to Europe decreased by 3.5 percent to US\$27,754 million in 2013, and their share in total exports fell to 9.1 percent. Imports from Europe increased by 6.1 percent to US\$29,994 million, with their share in total imports growing to 11.1 percent. Therefore, the trade balance with Europe turned from a surplus of US\$499 million in 2012 to a deficit of US\$2,240 million in 2013.

Exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased by 3.9 percent to US\$57,888 million in 2013. The combined share of exports to these countries in total exports increased to 19.0 percent. Imports from these countries grew by 3.4 percent to US\$32,431 million, with a share of 12.0 percent in total imports. In sum, the trade surplus with these six countries expanded from US\$24,349 million in 2012 to US\$25,457 million, with Singapore and the Philippines being the second and the third largest sources of Taiwan's trade surplus, respectively.

## Direction of Trade in Goods by Country

Unit: %

|                                      | 2013                     |              |                  | 2012                     |              |                  |
|--------------------------------------|--------------------------|--------------|------------------|--------------------------|--------------|------------------|
|                                      | Amount<br>(US\$ Million) | Share        | Annual<br>Change | Amount<br>(US\$ Million) | Share        | Annual<br>Change |
| <b>Exports</b>                       |                          |              |                  |                          |              |                  |
| Mainland China (including Hong Kong) | 121,226                  | 39.7         | 2.2              | 118,646                  | 39.4         | -4.4             |
| Southeast Asia 6*                    | 57,888                   | 19.0         | 3.9              | 55,713                   | 18.5         | 9.8              |
| U. S. A.                             | 32,564                   | 10.7         | -1.2             | 32,976                   | 10.9         | -9.3             |
| Europe                               | 27,754                   | 9.1          | -3.5             | 28,765                   | 9.6          | -7.8             |
| Japan                                | 19,221                   | 6.3          | 1.2              | 18,989                   | 6.3          | 4.2              |
| Rest of the World                    | 46,798                   | 15.3         | 1.5              | 46,091                   | 15.3         | -3.3             |
| <b>Total</b>                         | <b>305,452</b>           | <b>100.0</b> | <b>1.4</b>       | <b>301,181</b>           | <b>100.0</b> | <b>-2.3</b>      |
| <b>Imports</b>                       |                          |              |                  |                          |              |                  |
| Mainland China (including Hong Kong) | 44,251                   | 16.4         | 1.6              | 43,567                   | 16.1         | -3.8             |
| Japan                                | 43,174                   | 16.0         | -9.2             | 47,574                   | 17.6         | -8.9             |
| Southeast Asia 6*                    | 32,431                   | 12.0         | 3.4              | 31,364                   | 11.6         | -3.9             |
| Europe                               | 29,994                   | 11.1         | 6.1              | 28,266                   | 10.5         | -4.5             |
| U. S. A.                             | 25,220                   | 9.3          | 6.8              | 23,604                   | 8.7          | -8.4             |
| Rest of the World                    | 95,002                   | 35.2         | -1.1             | 96,098                   | 35.5         | 0.1              |
| <b>Total</b>                         | <b>270,071</b>           | <b>100.0</b> | <b>-0.1</b>      | <b>270,473</b>           | <b>100.0</b> | <b>-3.9</b>      |

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

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

### 2. Services

In 2013, service receipts increased by US\$2,529 million to US\$51,640 million, the largest-ever level in history. Service payments fell by US\$392 million to US\$42,371 million. Therefore, the service surplus greatly expanded by US\$2,921 million to US\$9,269 million, hitting a new high.

Of the various components of the services account, transportation receipts grew by US\$72 million to US\$10,058 million, reflecting an increase in international freight fares received by domestic sea carriers and international passenger fares received by domestic air carriers. Transportation payments also grew by US\$62 million to US\$10,544 million, resulting mainly from higher foreign ports expenses paid by domestic sea carriers. Overall, net transportation payments slightly decreased to US\$486 million in the year from the US\$496 million of the previous year.

Travel receipts increased by US\$907 million to US\$12,677 million as the total number of inbound visitors registered a record-high figure of 8.02 million, which included 2.88 million visitors from Mainland China, Taiwan's largest source of visitors. Meanwhile, travel payments increased by US\$1,674 million to US\$12,304 million. The main reason was a modest 7.9 percent growth in the number of overseas visits by residents, mainly boosted by visits to Japan. In sum, net travel receipts contracted from US\$1,140 million in 2012 to US\$373 million in 2013.

Other services receipts increased by US\$1,550 million to US\$28,905 million, mainly attributable to increases in net proceeds from merchanting. Other services payments declined by US\$2,128 million to US\$19,523 million on account of a decrease in expenditure on trade-related commissions. In all, the surplus in net other services expanded from US\$5,704 million in 2012 to US\$9,382 million in 2013.

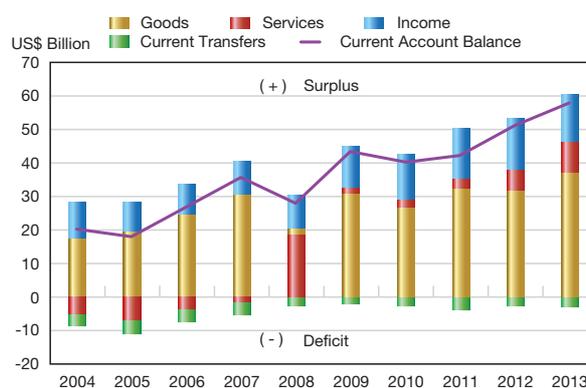
### 3. Income

In 2013, income receipts declined by US\$664 million to US\$25,169 million, mainly owing to decreases in interest earnings generated by residents' foreign exchange assets. Meanwhile, income payments amounted to US\$11,076 million, US\$579 million more than in 2012, mostly attributable to an increase in non-residents' investment income from local equity securities. Consequently, the surplus on the income account shrunk from US\$15,336 million in 2012 to US\$14,093 million for the year of 2013.

### 4. Current Transfers

For the year of 2013, the respective figures of current transfer receipts and payments amounted to US\$6,154 million and US\$9,150 million. As a whole, the deficit on net current transfers expanded to US\$2,996 million in 2013 from the US\$2,620 million of the previous year, mainly owing to greater outward remittances for family support as well as anti-trust penalty payments.

#### Current Account



Source: Balance of Payments, CBC.

### A Net Inflow in the Capital Account

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 2013, the capital account posted a surplus of US\$6 million from a deficit of US\$83 million the previous year, owing to the increased receipts from residents' sales of patent rights.

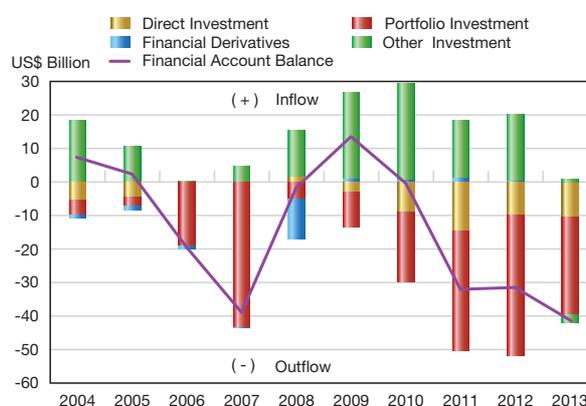
### A Huge Net Outflow in the Financial Account

The financial account for the year 2013 showed a record-high net outflow of US\$41,164 million. In terms of sub-categories, direct investment, portfolio investment and other investment registered net outflows of US\$10,340 million, US\$29,197 million and US\$2,396 million, respectively.

#### 1. Direct Investment

Direct investment abroad by residents exhibited a record net outflow of US\$14,336

#### Financial Account



Source: Balance of Payments, CBC.

million, an increase of US\$1,199 million compared with 2012. On the other hand, direct investment in Taiwan by non-residents registered a net inflow of US\$3,996 million, US\$789 million more than in the previous year. According to the statistics of approved cases, residents' direct investment in Mainland China and in other areas reported US\$8,685 million and US\$5,232 million, respectively, suggesting that Mainland China remained the major recipient of Taiwan's direct investment abroad. The main investment target sectors included banking and insurance, wholesale and retail, and manufacturing sectors such as basic metals, computers, electronic and optical products, and electronic parts and components. Overall, direct investment exhibited a net outflow of US\$10,340 million in 2013, US\$410 million more than in 2012.

## 2. Portfolio Investment

In 2013, portfolio investment abroad by residents showed a net outflow of US\$37,177 million, mostly attributable to investment in overseas securities by life insurance companies. On the other hand, local portfolio investment by non-residents exhibited a net inflow of US\$7,980 million. This was due to quantitative easing monetary policies implemented by the Fed, the ECB and the BOJ, which led to massive foreign capital inflows into Asia's emerging economies, including Taiwan's stock market. As a result, a net inflow of US\$9,618 million was recorded in non-residents' equity securities investment. Overall, portfolio investment showed a net outflow of US\$29,197 million in 2013.

## 3. Financial Derivatives

Financial derivatives recorded a net inflow of US\$769 million, mainly owing to gains reaped by the banking sector from transactions of derivative instruments involving foreign exchange swaps, cross currency swaps, and interest rate swaps.

## 4. Other Investment

In 2013, other investment abroad by residents shifted to a net outflow of US\$50,037 million from a net inflow of US\$4,776 million a year earlier. The main reason was that banks' deposits with overseas branches increased following the substantial growth of the renminbi deposit business throughout the year. On the other hand, other inward investment by non-residents showed a net inflow of US\$47,641 million, largely attributable to the borrowings from overseas affiliates by the banking sector and short-term liabilities of the private sector. As a consequence, other investment swung to a net outflow of US\$2,396 million in 2013.

## **Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the CBC increased by US\$11,318 million as a result of the current account surplus.