

### 3. Balance of Payments

In 2014, the current account registered a record of US\$65,335 million surplus, which accounted for 12.3 percent of nominal GDP, up from 10.8 percent in the previous year, as a result of wider surpluses on the goods, services, and income accounts and a decrease in the current transfer deficit. The financial account posted a net outflow, which reached a new high of US\$53,046 million as investment in overseas debt securities by residents exhibited unprecedented net outflows. Because the current account surplus was partly offset by the net outflow in the financial account, the overall balance of payments recorded a surplus of US\$13,015 million, which was reflected in the increase in foreign reserve assets held by the CBC.

#### Wider Current Account Surplus

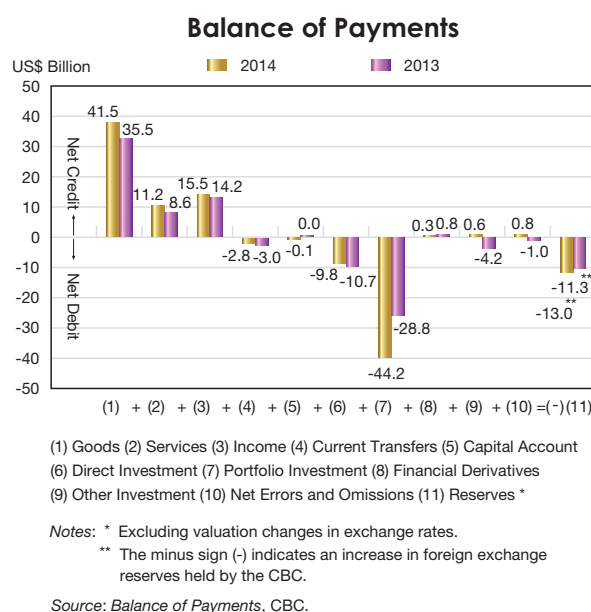
The current account consists of four major items, namely goods, services, income, and current transfers.

##### (1) Goods

Because an increase in electronics exports offset decreases in the volume and prices of mineral exports, the value of exports increased modestly by 2.7 percent to US\$311,554 million. The value of imports increased by 0.9 percent to US\$270,066 million, mainly accounted for by rising imports of consumer goods and capital equipment. As a result of a larger growth in exports over imports, the goods surplus widened to US\$41,488 million in 2014, hitting a new high in history.

According to customs statistics, the top three export partners of Taiwan in 2014 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 57.4 percent of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 43.3 percent.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$124,685 million in 2014, up by 2.9 percent



## Balance of Payments

Unit: US\$ Million

	(1) 2014	(2) 2013	(1)-(2)
A. Current Account	65,335	55,257	10,078
Goods: exports f.o.b.	311,554	303,230	8,324
Goods: imports f.o.b.	-270,066	-267,778	-2,288
Balance on Goods	41,488	35,452	6,036
Services: credit	57,372	51,284	6,088
Services: debit	-46,208	-42,720	-3,488
Balance on Services	11,164	8,564	2,600
Income: credit	30,413	25,352	5,061
Income: debit	-14,941	-11,115	-3,826
Balance on Income	15,472	14,237	1,235
Current transfers: credit	6,578	6,153	425
Current transfers: debit	-9,367	-9,149	-218
Balance on Current Transfers	-2,789	-2,996	207
B. Capital Account	-76	6	-82
Total, Groups A plus B	65,259	55,263	9,996
C. Financial Account	-53,046	-42,934	-10,112
Direct investment abroad	-12,597	-14,285	1,688
Direct investment in R.O.C. (Taiwan)	2,839	3,598	-759
Portfolio investment assets	-57,105	-36,814	-20,291
Portfolio investment liabilities	12,895	7,980	4,915
Financial derivatives assets	5,689	5,851	-162
Financial derivatives liabilities	-5,406	-5,081	-325
Other investment assets	-14,614	-49,534	34,920
Other investment liabilities	15,253	45,351	-30,098
Total, Groups A through C	12,213	12,329	-116
D. Net Errors and Omissions	802	-1,011	1,813
Total, Groups A through D	13,015	11,318	1,697
E. Reserves and Related Items*	-13,015	-11,318	-1,697

Note: \* Excluding valuation changes in exchange rates.

Source: Balance of Payments, CBC.

from the previous year. Mainland China's economic slowdown, supply chain localization, and overcapacity limited Taiwan's growth in exports to Mainland China. Taiwan's electronics exports to Mainland China increased by 16.0 percent, while its exports of LCDs and chemicals substantially reduced by 10.4 percent and 5.2 percent, respectively. The share of exports to Mainland China stayed the same at 39.7 percent as last year and Mainland China remained Taiwan's largest export market in 2014.

Imports from Mainland China grew by 12.4 percent to US\$49,728 million, attributable to demand for industrial raw materials such as electronic products and metals. With a share of 18.1 percent, Mainland China continued to be Taiwan's largest import partner. The trade surplus with Mainland China decreased by 2.6 percent to US\$74,956 million in 2014, yet Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US recorded a total value of US\$34,873 million in 2014, increasing by 7.1 percent from 2013 and comprising a higher share of 11.1 percent in total exports. Taiwan's metals exports to the US grew 15.6 percent to US\$5,710 million, mainly induced by rising demand in a recovering US economy. Imports from the US grew by 8.8 percent to US\$27,425 million, and their share in total imports increased to 10.0 percent, compared with 9.3 percent a year earlier. The trade surplus with the US expanded to US\$7,447 million. The US remained the fourth largest source of Taiwan's trade surplus.

Exports to Japan increased by 3.6 percent to US\$19,908 million, mainly spurred by robust demand for Taiwan's electronic products. The share of exports to Japan remained at 6.3 percent. Although a weaker yen lowered the cost of imports from Japan, the relocation of Japanese manufacturing firms abroad led Taiwan's imports from Japan to decrease 3.4 percent to US\$41,696 million, with their share in total imports declining further to 15.2 percent. However, Japan remained Taiwan's second largest source of imports in 2014. The trade deficit with Japan narrowed to US\$21,789 million.

Even though Europe's economic prospects were not yet clear, the ECB's stimulus measures bolstered its growth momentum. Therefore, Taiwan's exports to Europe rebounded by 3.5 percent to US\$28,720 million in 2014, and their share in total exports slightly rose to 9.2 percent. Imports from Europe increased by 2.4 percent to US\$30,707 million, with a share of 11.2 percent in total imports. The trade deficit with Europe narrowed to US\$1,986 million.

Owing to the plunge in global oil prices, exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam merely increased by 1.3

### Direction of Trade in Goods by Country

Unit: %

	2014			2013		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	124,685	39.7	2.9	121,222	39.7	2.2
Southeast Asia 6*	58,629	18.7	1.3	57,888	19.0	3.9
U. S. A.	34,873	11.1	7.1	32,564	10.7	-1.2
Europe	28,720	9.2	3.5	27,750	9.1	-3.5
Japan	19,908	6.3	3.6	19,222	6.3	1.2
Rest of the World	46,987	15.0	0.4	46,795	15.3	1.5
Total	313,801	100.0	2.7	305,441	100.0	1.4
Imports						
Mainland China (including Hong Kong)	49,728	18.1	12.4	44,248	16.4	1.6
Japan	41,696	15.2	-3.4	43,162	16.0	-9.3
Southeast Asia 6*	33,508	12.2	3.4	32,391	12.0	3.3
Europe	30,707	11.2	2.4	29,986	11.1	6.1
U. S. A.	27,425	10.0	8.8	25,201	9.3	6.8
Rest of the World	91,156	33.2	-4.0	94,908	35.2	-1.2
Total	274,221	100.0	1.6	269,897	100.0	-0.2

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

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

percent to US\$58,629 million in 2014. The combined share of exports to these countries in total exports decreased to 18.7 percent. Imports from these countries grew by 3.4 percent to US\$33,508 million, with a share of 12.2 percent in total imports. In sum, the trade surplus with these six countries reduced from US\$25,497 million in 2013 to US\$25,121 million, with Singapore and the Philippines the second and the third largest sources of Taiwan's trade surplus, respectively.

## (2) Services

In 2014, service receipts increased by US\$6,088 million to US\$57,372 million, the highest level in history. Service payments increased by US\$3,488 million to US\$46,208 million. In all, the service surplus expanded by US\$2,600 million to US\$11,164 million, hitting a new record.

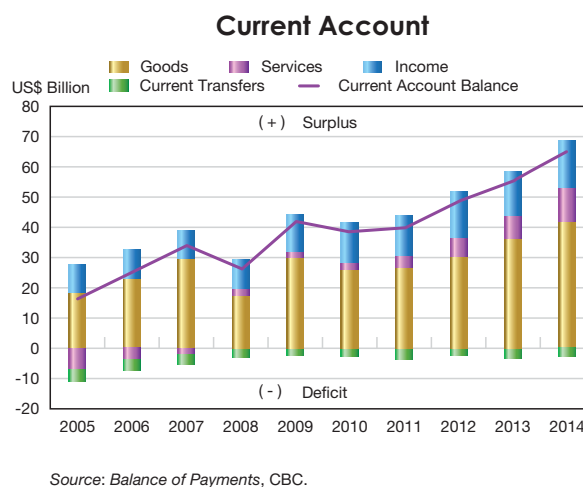
Of the various components of the services account, transportation receipts grew by US\$999 million to US\$11,109 million, reflecting increases both in international freight fares received by domestic sea carriers and in international passenger fares received by domestic air carriers. Transportation payments also grew by US\$703 million to US\$11,246 million, resulting mainly from higher foreign ports expenses paid by domestic carriers. Overall, net transportation payments slightly decreased to US\$137 million in the year.

Travel receipts increased by US\$2,330 million to US\$14,653 million as the total number of inbound visitors grew 23.6 percent to a record-high level of 9.91 million, among which visitors from Mainland China accounted for 40.2 percent and grew 38.7 percent compared to the previous year. Meanwhile, travel payments increased by US\$1,694 million to US\$13,998 million. This was mainly due to a 7.2 percent growth in the number of outbound travelers, mostly boosted by visits to Japan to take advantage of a weaker yen. In sum, net travel receipts increased to US\$655 million in 2014.

Other services receipts increased by US\$2,759 million to US\$31,610 million, mainly attributable to an increase in net proceeds from merchanting. Other services payments increased by US\$1,091 million to US\$20,964 million on account of an increase in expenditure on trade-related commissions. In all, the surplus in other services expanded to US\$10,646 million in 2014.

## (3) Income

In 2014, income receipts increased by US\$5,061 million to US\$30,413 million, mainly owing to



increases in banks' interest revenues and residents' direct investment income. Meanwhile, income payments amounted to US\$14,941 million, US\$3,826 million more than in 2013, mostly attributable to an increase in non-residents' direct investment income. Consequently, the surplus on the income account expanded to US\$15,472 million for the year of 2014.

#### (4) Current Transfers

For the year of 2014, current transfer receipts and payments amounted to US\$6,578 million and US\$9,367 million, respectively. As a whole, the deficit in current transfers shrunk to US\$2,789 million in 2014, mainly owing to an increase in subsidies provided by a foreign parent company to its subsidiary in Taiwan.

### Net Outflow in the Capital Account

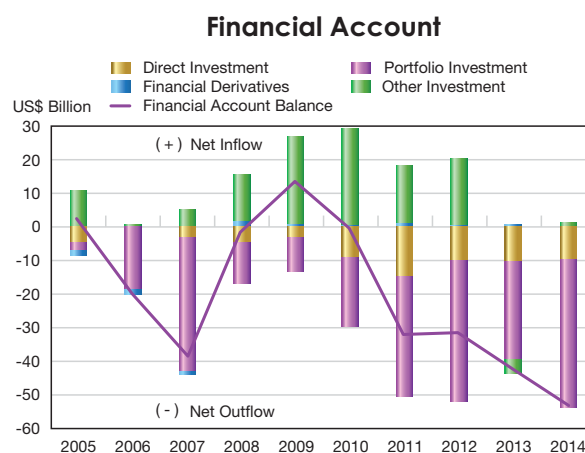
The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers) and the acquisition and disposal of non-produced, non-financial assets. In 2014, the capital account posted a deficit of US\$76 million, from a surplus of US\$6 million the previous year, owing to decreased receipts from residents' sales of patent rights.

### Huge Net Outflow in the Financial Account

The financial account for the year 2014 showed a record-high net outflow of US\$53,046 million. In terms of sub-categories, direct investment and portfolio investment registered net outflows of US\$9,758 million and US\$44,210 million, respectively, while other investment registered a net inflow of US\$639 million.

#### (1) Direct Investment

Direct investment abroad by residents registered a net outflow of US\$12,597 million, a decrease of US\$1,688 million compared with 2013. On the other hand, direct investment in Taiwan by non-residents registered a net inflow of US\$2,839 million, US\$759 million less than in the previous year. Based on approved cases, residents' direct investment in Mainland China and in other areas reported US\$9,830 million and US\$7,294 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



Source: Balance of Payments, CBC.

such as electronic parts and components, computers, electronics and optical products. The main target sector for inbound investments by non-residents included banking and insurance, electronic parts and components, and wholesale and retail. Overall, direct investment exhibited a net outflow of US\$9,758 million in 2014, decreasing by US\$929 million compared to 2013.

## (2) Portfolio Investment

In 2014, portfolio investment abroad by residents showed a record-high net outflow of US\$57,105 million, mostly attributable to investment in foreign securities by life insurance companies. A substantial increase was recorded in insurance companies' holdings of foreign currency denominated international bonds (including Formosa bonds) issued by non-residents throughout the year, mainly due to the easing of the *Insurance Act* in June 2014, whereby insurance companies' investments in international bonds would no longer be included in the amount subject to the overseas investment ceiling. On the other hand, local portfolio investment by non-residents exhibited a net inflow of US\$12,895 million. This was due to foreign capital inflows into Taiwan's stock market. As a result, a net inflow of US\$13,756 million was recorded in non-residents' equity securities investment, while a net outflow of US\$861 million was recorded in non-residents' debt securities investment as foreign investors reduced holdings of government and corporate bonds. Overall, portfolio investment showed a net outflow of US\$44,210 million in 2014.

## (3) Financial Derivatives

Financial derivatives recorded a net inflow of US\$283 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 2014, other investment abroad by residents showed a net outflow of US\$14,614 million, mainly owing to increases in banks' overseas long-term loans and overseas account receivables. On the other hand, other inward investment by non-residents showed a net inflow of US\$15,253 million, largely attributable to increases in borrowings from overseas branches by the banking sector and short-term loans received from abroad by the private sector. As a consequence, other investment as a whole swung into a net inflow of US\$639 million in 2014.

## **Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the CBC increased by US\$13,015 million as a result of the current account surplus.