

3. Balance of Payments

In order to be consistent with international statistical standards and practice, the CBC has adopted the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) since the first quarter of 2016.

In 2016, Taiwan's current account registered a smaller surplus of US\$70,938 million, which

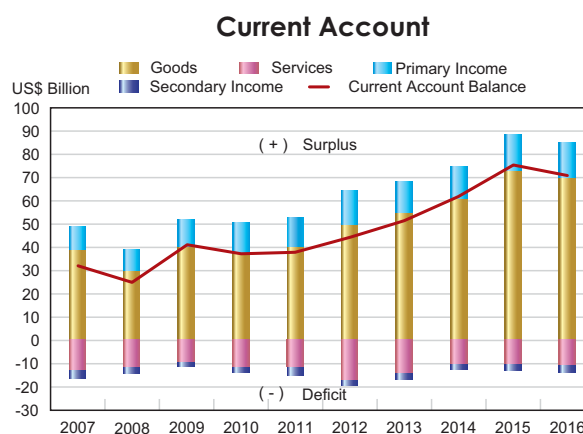
Balance of Payments

Unit: US\$ Million

	(1) 2016	(2) 2015	(1)-(2)
A. Current Account	70,938	75,180	-4,242
Goods: credit (exports)	312,303	336,899	-24,596
Goods: debit (imports)	242,893	264,064	-21,171
Balance on Goods	69,410	72,835	-3,425
Services: credit (exports)	41,443	41,127	316
Services: debit (imports)	52,407	51,259	1,148
Balance on Services	-10,964	-10,132	-832
Primary income: credit	29,459	28,886	573
Primary income: debit	13,810	13,032	778
Balance on primary income	15,649	15,854	-205
Secondary Income: credit	6,944	6,618	326
Secondary Income: debit	10,101	9,995	106
Balance on secondary income	-3,157	-3,377	220
B. Capital Account	-9	-5	-4
C. Financial Account	65,037	66,116	-1,079
Direct investment: assets	17,843	14,709	3,134
Equity and investment fund shares	16,810	13,649	3,161
Debt instruments	1,033	1,060	-27
Direct investment: liabilities	8,333	2,413	5,920
Equity and investment fund shares	7,311	2,478	4,833
Debt instruments	1,022	-65	1,087
Portfolio investment: assets	81,062	56,341	24,721
Equity and investment fund shares	6,547	6,930	-383
Debt securities	74,515	49,411	25,104
Portfolio investment: liabilities	2,643	-858	3,501
Equity and investment fund shares	5,325	1,658	3,667
Debt securities	-2,682	-2,516	-166
Financial derivatives: assets	-11,153	-11,227	74
Financial derivatives: liabilities	-8,925	-12,411	3,486
Other investment: assets	-3,094	-16,498	13,404
Other investment: liabilities	17,570	-11,935	29,505
D. Net Errors and Omissions	4,771	5,952	-1,181
E. Reserves and Related Items*	10,663	15,011	-4,348

Note: * Excluding valuation changes in exchange rates.
Source: *Balance of Payments*, CBC, February 2017.

accounted for 13.4% of nominal GDP, down from 14.3% the previous year as a result of narrower surpluses on the goods and primary income accounts and a wider deficit on trade in services. The financial account posted a net asset increase of US\$65,037 million mainly owing to greater investment in debt securities abroad by residents. The overall balance of payments recorded a surplus of US\$10,663 million, which was reflected in the increase in foreign reserve assets held by the CBC.



Source: Balance of Payments, CBC, February 2017.

Narrower Current Account Surplus

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

(1) Goods

A persistently stagnant world economy dragged down Taiwan's external merchandise trade in 2016 despite stronger global demand for semiconductors and rising prices of raw materials in the second half of the year. The value of exports, on a BOP basis, declined 7.3% to US\$312,303 million, and the value of imports decreased 8.0% to US\$242,893 million. As a result of a larger reduction in the value of exports over that of imports, the goods surplus narrowed to US\$69,410 million.

In addition, according to customs statistics, the value of exports declined 1.7% to US\$280,394 million on a free on board (FOB) basis, and the value of imports decreased 2.7% to US\$230,888 million on a cost, insurance, and freight (CIF) basis, respectively.

The top three export partners of Taiwan in 2016 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Japan, accounting for a combined share of 59.0% of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 49.6%.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$112,300 million in 2016, 0.2% lower than the previous year. China's economic slowdown, supply chain localization, and overcapacity limited growth in Taiwan's exports to Mainland China. Among major export products to Mainland China, optical instruments and apparatus posted slower growth, whereas electronic parts and components, and information, communication and audio-video products increased by 16.4% and 0.7% respectively. The share of exports to Mainland China rose to

40.1%, and Mainland China remained Taiwan's largest export market.

Imports from Mainland China dropped 3.0% to US\$45,329 million. With a share of 19.6%, Mainland China continued to be Taiwan's largest import partner. The trade surplus with Mainland China increased by 1.8% to US\$66,971 million in 2016. Furthermore, Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the Association of Southeast Asian Nations (ASEAN), including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, decreased by 0.6% to US\$51,317 million in 2016. The combined share of exports to ASEAN climbed to 18.3%. Imports from these countries decreased 6.4% to US\$27,192 million, with a share of 11.8% in total imports. In sum, the trade surplus with ASEAN increased from US\$22,601 million in 2015 to US\$24,125 million, with Singapore, Vietnam, and the Philippines being the second, third, and fourth largest sources of Taiwan's trade surplus, respectively.

Despite a stable growth trend in the US economy, Taiwan's exports to the US still declined 2.9% to US\$33,525 million, thus comprising a lower share of 12.0% in total exports. The top three types of products exported to the US were information, communication and audio-video products, base metals and articles of base metal, and machinery. Among these, only information, communication and audio-video product exports increased. Imports from the US decreased by 2.0% to US\$28,603 million, yet its share in total imports grew to 12.4%. The trade surplus with the US, Taiwan's fifth largest

Direction of Trade in Goods by Country

Unit: %

	2016			2015		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	112,300	40.1	-0.2	112,540	39.4	-12.4
ASEAN	51,317	18.3	-0.6	51,639	18.1	-14.2
U.S.	33,525	12.0	-2.9	34,543	12.1	-1.6
Europe	26,236	9.4	1.0	25,964	9.1	-10.8
Japan	19,554	7.0	-0.2	19,592	6.9	-2.7
Rest of the World	37,461	13.4	-8.8	41,066	14.4	-12.6
Total	280,394	100.0	-1.7	285,344	100.0	-10.9
Imports						
Mainland China (including Hong Kong)	45,329	19.6	-3.0	46,734	19.7	-8.3
Japan	40,648	17.6	4.6	38,865	16.4	-7.4
U.S.	28,603	12.4	-2.0	29,196	12.3	-2.8
ASEAN	29,045	12.6	1.9	28,499	12.0	-11.1
Europe	27,192	11.8	-6.4	29,039	12.2	-16.4
Rest of the World	60,071	26.0	-7.4	64,887	27.4	-29.5
Total	230,888	100.0	-2.7	237,219	100.0	-15.8

Note: * Including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R.O.C. (Taiwan), February 2017.

surplus source, shrank to US\$4,922 million.

Exports to Japan decreased by 0.2% to US\$19,554 million, yet the share of exports to Japan went up to 7.0%. The primary export product to Japan is electronic parts and components, which grew for the fifth consecutive year with a year-on-year increase of 1.3%. Imports from Japan increased by 4.6% to US\$40,648 million, with the share rising to 17.6% in total imports. Japan remained Taiwan's second largest source of imports in 2016. In sum, the trade deficit with Japan widened to US\$21,093 million.

Because of a low base the previous year, exports to Europe increased by 1.0% to US\$26,236 million, and their share in total exports grew to 9.4%. Imports from Europe increased by 1.9% to US\$29,045 million, making up a greater share of 12.6% in total imports. The trade deficit with Europe widened to US\$2,809 million.

(2) Services

The adoption of BPM6 led Taiwan's services account to run deficits instead of surplus as under previous manuals, because merchanting is reclassified from services to goods. In 2016, services receipts slightly increased by US\$316 million to US\$41,443 million. Services payments increased by US\$1,148 million to US\$52,407 million. In all, the services deficit widened to US\$10,964 million.

Of the various components of the services account, manufacturing services on physical inputs owned by others, reflected by the receipts of a resident providing a nonresident with the services of processing, assembly, labeling, or packing on goods owned by the nonresident, increased by US\$415 million to US\$2,035 million in 2016. On the debit side, payments for manufacturing services, namely a resident's payments to a nonresident for providing these services for the resident who is also the owner of the goods concerned, decreased by US\$937 million to US\$3,452 million.

In terms of maintenance and repair services n.i.e. (not included elsewhere), which covers maintenance and repair work for or by nonresidents on ships, aircraft, and other transport equipment, the receipts increased by US\$438 million to US\$832 million, while the payments increased by US\$70 million to US\$860 million.

Transport receipts shrank by US\$1,029 million to US\$8,899 million, reflecting decreases in international freight fares and passenger fares received by domestic carriers. Transport payments increased by US\$829 million to US\$10,793 million, resulting from growth in domestic passengers' payments to foreign airlines. Overall, net transport payments substantially increased by US\$1,858 million to US\$1,894 million in the year, with the balance on international passenger fares turning into a deficit after running a continuous surplus since 2009.

Even though tourists from China decreased, the number of inbound visitors reached a record high this year. However, owing to diminishing average daily expenditures per inbound visitor and shortened average length of stay, travel receipts decreased by US\$1,004 million to US\$13,383 million. Meanwhile, travel payments increased by US\$1,071 million to its highest ever level of US\$16,574 million. This was mainly due to a 10.7% increase in the number of outbound travelers. In sum, the deficit on the travel account expanded over a year before to US\$3,191 million, the largest deficit since Taiwan opened up to Mainland Chinese tour groups in 2008.

Other services receipts increased by US\$1,496 million to US\$16,294 million, mainly attributable to an increase in receipts of construction and of professional and management consulting services (which is under other business services). Other services payments increased by US\$115 million to US\$20,728 million on account of increases in expenditures on construction and financial services. In all, the deficit in other services shrank to US\$4,434 million in 2016.

(3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2016, primary income receipts increased by US\$573 million to US\$29,459 million, mainly caused by an increase in interest earnings generated by residents' foreign portfolio investment. Meanwhile, primary income payments amounted to US\$13,810 million, US\$778 million more than the previous year, mostly attributable to an increase in dividends from equity securities paid to non-residents. Consequently, the surplus on the primary income account narrowed to US\$15,649 million for the year of 2016.

(4) Secondary Income

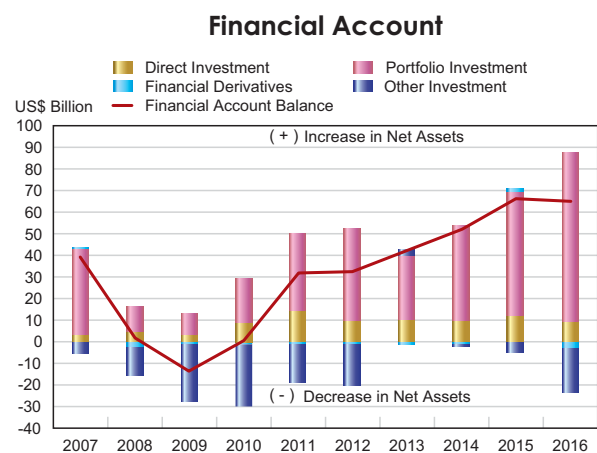
For the year of 2016, secondary income receipts and payments amounted to US\$6,944 million and US\$10,101 million, respectively. As a whole, the deficit in secondary income narrowed to US\$3,157 million in 2016, mainly owing to a decrease in outward donation remittances.

Higher Capital Account Deficit

The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2016, the capital account deficit went up by US\$4 million to US\$9 million.

Net Asset Increase in Financial Account

The financial account showed an increase



Source: *Balance of Payments*, CBC.

of US\$65,037 million in net assets. In terms of sub-categories, direct investment and portfolio investment exhibited increases of US\$9,510 million and US\$78,419 million in net assets, respectively. Financial derivatives and other investment exhibited decreases of US\$2,228 million and US\$20,664 million in net assets, respectively.

(1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$17,843 million in assets, and direct investment in Taiwan by non-residents showed an increase of US\$8,333 million in liability, both of which registered record highs in 2016. This was primarily attributable to cross-border mergers and acquisitions, as well as large share swap transactions conducted by both sides.

Based on approved cases, residents' direct investment in China and in other areas reported US\$9,184 million and US\$12,123 million, respectively, suggesting that China remained the major recipient of Taiwan's direct investment abroad. The main investment target sectors included electronic parts and components manufacturing, finance and insurance, computers, and electronic and optical products manufacturing.

The main target sector for inbound investments by non-residents included electronic parts and components manufacturing, machinery and equipment manufacturing, and finance and insurance.

Overall, direct investment reported an increase of US\$9,510 million in net assets in 2016.

(2) Portfolio Investment

In 2016, portfolio investment abroad by residents increased by US\$81,062 million. Of the components, equity and investment fund shares increased by US\$6,547 million, and debt securities increased by US\$74,515 million.

The substantial increase in debt securities was because insurance companies expanded their investment in debt securities (including Formosa bonds) abroad issued by non-residents throughout the year. Their motivation was that insurance companies' holdings of foreign currency denominated international bonds were allowed to be excluded from the amount subject to the overseas investment ceiling.

On the other hand, local portfolio investment by non-residents increased by US\$2,643 million. Of the components, equity and investment fund shares increased by US\$5,325 million, as foreign investors increased holdings of Taiwanese stocks; debt securities decreased by US\$2,682 million, mainly because foreign investors reduced holdings of domestic bank debentures and corporate bonds.

Overall, portfolio investment showed an increase of US\$78,419 million in net assets in 2016.

(3) Financial Derivatives

Assets in financial derivatives decreased by US\$11,153 million, principally because of gains on transactions of financial derivatives received by banks and other financial corporations.

Liabilities in financial derivatives decreased by US\$8,925 million, mainly because of losses on transactions of financial derivatives paid by banks and other financial corporations.

(4) Other Investment

In 2016, other investment abroad by residents decreased by US\$3,094 million. Of the components, currency and deposits decreased by US\$4,801 million as the private sector withdrew overseas deposits; loans increased by US\$5,794 million because banks' short-term lending to non-residents mounted; trade credit increased by US\$26 million; other accounts receivable decreased by US\$4,122 million, owing to diminished accounts receivable from non-residents.

Moreover, other inward investment by non-residents increased by US\$17,570 million. Of the components, currency and deposits increased by US\$9,954 million, because of growing deposits from non-residents and overseas branches; loans increased by US\$9,306 million, owing to expanded short-term external borrowing by banks; trade credit increased by US\$120 million; other accounts payable decreased by US\$1,810 million, owing to falling accounts payable to non-residents.

As a consequence, other investment showed a decrease of US\$20,664 million in net assets in 2016.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the CBC increased by US\$10,663 million as the current account surplus surpassed the net assets increase in the financial account.