

### 3. BALANCE OF PAYMENTS

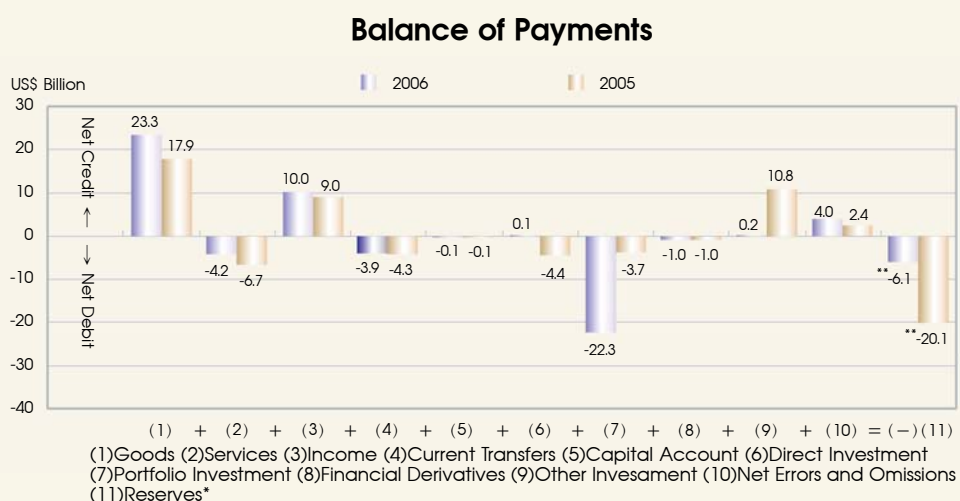
The balance of payments was characterized by an increase in the current account surplus and a net outflow in the financial account in 2006. The current account surplus registered the third highest figure on record of US\$25,187 million, which was up from the previous year's US \$16,019 million and accounted for 6.9 percent of nominal GNP. The capital account registered a relatively small deficit of US\$118 million. The financial account exhibited a net outflow of US \$22,987 million, which was the highest on record. As a result, the foreign reserve assets held by the Bank increased by US\$6,086 million.

#### Marked Increase in Current Account Surplus

The components of the current account include goods, services, income and current transfers. The current account surplus increased in 2006, mainly as a result of the widened surplus in both goods and income as well as the decline in the deficits of services and current transfers.

#### (1) Goods

For the year 2006, both on a balance of payments basis and a customs basis, the value of exports and imports reached historic highs. On a balance of payments basis, the value of exports grew by 12.8 percent to US\$223,783 million, mainly driven by strong expansion in the



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

	2006	2005
A. Current Account	25,187	16,019
Goods: exports f.o.b.	223,783	198,456
Goods: imports f.o.b.	-200,514	-180,559
Balance on Goods	23,269	17,897
Services: credit	29,381	25,827
Services: debit	-33,563	-32,480
Balance on Services	-4,182	-6,653
Income: credit	19,779	17,394
Income: debit	-9,744	-8,355
Balance on Income	10,035	9,039
Current transfers: credit	3,837	3,463
Current transfers: debit	-7,772	-7,727
Balance on Current Transfers	-3,935	-4,264
B. Capital Account	-118	-117
Total, Groups A plus B	25,069	15,902
C. Financial Account	-22,987	1,717
Direct investment abroad	-7,316	-6,028
Direct investment in R. O. C. (Taiwan)	7,445	1,625
Portfolio investment assets	-44,124	-34,727
Portfolio investment liabilities	21,814	31,045
Financial derivatives assets	1,930	909
Financial derivatives liabilities	-2,896	-1,912
Other investment assets	-1,351	-6,014
Other investment liabilities	1,511	16,819
Total, Groups A through C	2,082	17,619
D. Net Errors and Omissions	4,004	2,437
Total, Groups A through D	6,086	20,056
E. Reserves and Related Items*	-6,086	-20,056

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

global economy. The value of imports rose by 11.1 percent to US\$200,514 million. It was primarily led by surging international oil prices and stronger derived demand arising from the expansion in exports. The trade surplus on goods increased to US\$23,269 million for the year, an increase of 30.0 percent from the previous year, and represented the third highest figure in history.

As indicated by the Customs' statistics, the top three trading partners for Taiwan in 2006 were China including Hong Kong (hereafter referred to as China), the US and Japan. Exports to these three countries accounted for 61.5 percent of total exports, while imports from these three countries made up 47.2 percent of total imports.

In terms of Taiwan's trade with China, exports totaled US\$89,191 million for the year, representing a growth of 14.8 percent compared with the previous year. The marked growth

## Direction of Trade in Goods by Country

Unit: %

	2006			2005		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
<b>Exports</b>						
China (including Hong Kong)	89,191	39.8	14.8	77,679	39.1	12.2
U. S. A.	32,362	14.4	11.2	29,114	14.7	1.3
Europe	26,149	11.7	10.6	23,650	11.9	-0.7
Southeast Asia 6*	30,652	13.7	13.8	26,931	13.6	13.8
Japan	16,301	7.3	7.9	15,111	7.6	9.4
Rest of the World	29,346	13.1	13.1	25,947	13.1	12.5
<b>Total</b>	<b>224,001</b>	<b>100.0</b>	<b>12.9</b>	<b>198,432</b>	<b>100.0</b>	<b>8.8</b>
<b>Imports</b>						
Japan	46,286	22.8	0.5	46,053	25.2	5.3
U. S. A.	22,664	11.2	7.1	21,171	11.6	-2.8
Europe	21,567	10.6	-1.6	21,920	12.0	2.4
Southeast Asia 6*	23,304	11.5	10.4	21,104	11.6	3.8
China (including Hong Kong)	26,666	13.2	20.1	22,203	12.2	16.2
Rest of the World	62,227	30.7	24.0	50,163	27.5	18.2
<b>Total</b>	<b>202,714</b>	<b>100.0</b>	<b>11.0</b>	<b>182,614</b>	<b>100.0</b>	<b>8.2</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).*

was attributable to China's strong economic growth, as well as the rising demand for IT products and parts from Taiwanese firms operating there. This increase appeared significant when compared with other major export markets, and the share of exports to China increased by 0.7 percentage points to 39.8 percent. China remained Taiwan's largest export market in 2006.

Imports from China totaled US\$26,666 millions, up by 20.1 percent, and its share of total imports rose to 13.2 percent in 2006, making China the second largest source of imports. The increase stemmed from the increased demand for Chinese machinery products and related parts due to the division of labor between Taiwanese industries across the Taiwan Strait. Taiwan's further opening to import items from China in recent years has contributed to this growth as well. The bilateral trade surplus with China climbed to US\$62,525 million, reflecting a 12.7 percent increase. China remained the largest source of Taiwan's trade surplus.

With respect to bilateral trade with the US, exports to the US increased by 11.2 percent in 2006, compared with an increase of 1.3 percent in the previous year. The share of exports to the US in total exports had decreased since 1998, and dropped further to 14.4 percent in 2006. The reasons behind the continuous declines were the increased trade activity between the US and the NAFTA (North American Free Trade Agreement) members, competition from China's low-priced products, and continued outward relocation (mainly to China) of local industries.

Imports from the US increased by 7.1 percent and its share of total imports declined from 11.6 percent in 2005 to 11.2 percent in 2006. Because the increase in exports was more than that in imports, the bilateral trade surplus with the US increased to US\$9,697 million, representing an increase of 22.1 percent. The US remained the second largest source of Taiwan's trade surplus.

Regarding bilateral trade with Japan, the recovery of the Japanese economy led to a rise in exports to Japan by 7.9 percent in 2006, while the share of exports to Japan declined to 7.3 percent. Imports from Japan slightly increased by 0.5 percent compared with the previous year, with the share of total imports rising to 22.8 percent in 2006. Japan remained Taiwan's largest source of imports. As the increase in exports was more than that in imports, Taiwan's trade deficit with Japan registered a decrease of 3.1 percent to US\$29,985 million for the year.

Exports to Europe increased by 10.6 percent in 2006, with the share of total exports falling to 11.7 percent. Imports from Europe decreased by 1.6 percent in 2006, with the share of imports decreasing to 10.6 percent of total imports. Due to the increase in exports and decrease in imports, Taiwan's trade surplus with Europe increased from US\$1,730 million in 2005 to US\$4,582 million in 2006.

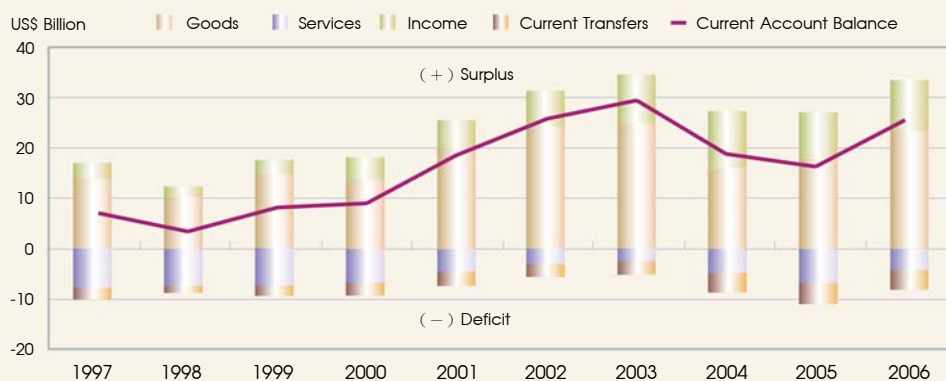
Owing to steady economic growth in Southeast Asia, exports to the six countries in the region, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased by 13.8 percent. In particular, exports to Thailand grew by 19.8 percent, the highest among the six countries. The share of exports to these countries rose to 13.7 percent. Imports from these countries rose by 10.4 percent in 2006, with the share of imports declining to 11.5 percent. As the increase of exports was more than that of imports, Taiwan's trade surplus with the six countries increased to US\$7,348 million in 2006 from US\$5,828 million in 2005.

## **(2) Services**

In 2006, both service receipts and payments registered their highest amounts in history. With total service receipts expanding by US\$3,554 million to US\$29,381 million and total service payments increasing by US\$1,083 million to US\$33,563 million, the service deficit narrowed to US\$4,182 million in 2006 from the US\$6,653 million recorded in 2005.

Of the various components of the services account, net payments with respect to transportation increased from US\$2,515 million recorded a year earlier to US\$2,785 million in 2006, largely due to the increase in residents traveling abroad and import freight expenses paid to foreign carriers. Total travel receipts increased by US\$143 million to US\$5,120 million as

## Current Account



Source: Balance of Payments, CBC.

a result of an increase in both the number and per person expenditure of nonresidents visiting Taiwan. Total travel payments for the year increased by US\$64 million to US\$8,746 million, due to an increase in overseas visits by residents. Net travel payments decreased to US\$3,626 million as total travel receipts increased at a greater pace than total travel payments. Other services receipts surged by US\$3,076 million to US\$18,002 million, while other services payments increased by US\$414 million to US\$15,773 million. As a result, net other services registered a surplus of US\$2,229 million in 2006 compared with a deficit of US\$433 million in 2005.

### (3) Income

Both total income receipts and payments registered their highest levels ever in 2006. Total income receipts increased by US\$2,385 million to US\$19,779 million in 2006. Total income payments for the year amounted to US\$9,744 million, US\$1,389 million more than in 2005. The surplus on the income account increased from US\$9,039 million in 2005 to US\$10,035 million in 2006, mainly due to the increase in investment income on the Bank's foreign exchange reserves and in inward remittances of interests earnings by offshore banking units (OBUs).

### (4) Current Transfers

Total current transfer receipts amounted to US\$3,837 million in 2006, US\$374 million more than in the previous year. Total current transfer payments for the year increased by US\$45 million to US\$7,772 million, reaching a historic high, on account of the increase in outward remittances by cross-border workers. Net current transfer payments decreased from US\$4,264

million in 2005 to US\$3,935 million in 2006.

### Increase in Capital Account Deficit

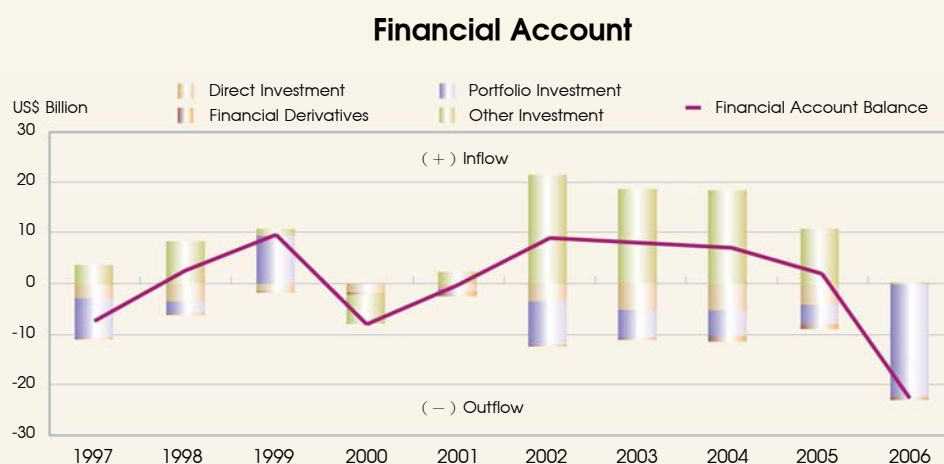
The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, non-financial assets. In 2006, the capital account continued to exhibit a deficit, and the size of this deficit slightly increased to US\$118 million from US\$117 million in 2005, as a result of the increased acquisitions of non-produced, non-financial assets.

### Net Outflow in the Financial Account

In 2006, the financial account presented a net outflow of US\$22,987 million. In terms of sub-categories, direct investment and other investment posted a net inflow of US\$129 million and US\$160 million, respectively, while portfolio investment and financial derivatives posted a net outflow of US\$22,310 million and US\$966 million, respectively.

#### (1) Direct Investment

Direct investment abroad by residents showed a net outflow of US\$7,316 million, US\$1,288 million more than in the previous year. China remained the lion's share of Taiwan's direct investment abroad. Direct investment in Taiwan by nonresidents registered a net inflow of US \$7,445 million, a huge increase of US\$5,820 million from the previous year. Foreign investors' main targets included the electronic parts and components manufacturing industry and the financial industry. As a result, compared with a net outflow of US\$4,403 million in 2005, direct



Source: Balance of Payments, CBC.

investment registered a net inflow of US\$129 million in 2006, the first net inflow since 1988.

## **(2) Portfolio Investment**

Portfolio investment abroad by residents recorded a net outflow of US\$44,124 million, the highest level ever recorded. It indicated increases in residents' investment in foreign mutual funds and in local insurance companies' investment abroad pursuing higher returns. Net inflows of local portfolio investment by nonresidents registered US\$21,814 million, the third highest level on record. The capital inflow to the domestic market could be largely attributed to the portfolio allocation of international funds in Asia. As a result, portfolio investment posted a huge net outflow of US\$22,310 million in 2006.

## **(3) Financial Derivatives**

Financial derivatives assets recorded a net inflow of US\$1,930 million, mainly due to gains from financial derivatives deals by residents and OBUs. Financial derivatives liabilities registered a net outflow of US\$2,896 million, mainly due to losses from financial derivatives deals by residents. As a result, financial derivatives posted a net outflow of US\$966 million in 2006.

## **(4) Other Investment**

Other investment abroad by residents recorded a net outflow of US\$1,351 million, representing an increase in other claims on nonresidents by residents. This outflow was mainly because of the increase in loans extended to foreign banks. Other local investments by nonresidents stood at a net inflow of US\$1,511 million, representing an increase in residents' other liabilities to nonresidents. The inflow was mainly due to the increased deposits of nonresidents in OBUs. As a consequence, other investment exhibited a net inflow of US\$160 million in 2006.

## **Increase in Foreign Exchange Reserves**

For the year as a whole, the foreign exchange reserve assets held by the Bank increased by US\$6,086 million. Reserve assets increased as a result of the current account surplus, which is larger than the net outflow in the financial account.