

3. Balance of Payments

In 2017, Taiwan's current account registered a record surplus of US\$84,086 million, which accounted for 14.7% of nominal GDP, up from 13.7% in the previous year, as a result of a wider goods trade surplus and a narrower deficit on trade in services. The financial account posted a net asset increase of US\$68,640, reaching a new high as investment in foreign securities by residents exhibited record-high net outflows. The overall balance of payments recorded a surplus of US\$12,467

Balance of Payments

Unit: US\$ Million

	(1) 2017	(2) 2016	(1)-(2)
A. Current Account	84,086	72,786	11,300
Goods: credit (exports)	349,808	309,941	39,867
Goods: debit (imports)	268,773	239,326	29,447
Balance on Goods	81,035	70,615	10,420
Services: credit (exports)	45,071	41,360	3,711
Services: debit (imports)	53,451	51,699	1,752
Balance on Services	-8,380	-10,339	1,959
Primary income: credit	35,021	29,469	5,552
Primary income: debit	19,515	13,824	5,691
Balance on primary income	15,506	15,645	-139
Secondary Income: credit	7,248	6,944	304
Secondary Income: debit	11,323	10,079	1,244
Balance on secondary income	-4,075	-3,135	-940
B. Capital Account	-12	-9	-3
C. Financial Account	68,640	55,773	12,867
Direct investment: assets	11,357	17,884	-6,527
Equity and investment fund shares	10,541	16,851	-6,310
Debt instruments	816	1,033	-217
Direct investment: liabilities	3,255	9,231	-5,976
Equity and investment fund shares	4,749	7,312	-2,563
Debt instruments	-1,494	1,919	-3,413
Portfolio investment: assets	82,924	81,463	1,461
Equity and investment fund shares	16,634	6,445	10,189
Debt securities	66,290	75,018	-8,728
Portfolio investment: liabilities	3,885	2,643	1,242
Equity and investment fund shares	4,052	5,325	-1,273
Debt securities	-167	-2,682	2,515
Financial derivatives: assets	-11,489	-11,153	-336
Financial derivatives: liabilities	-7,793	-8,925	1,132
Other investment: assets	11,512	-7,352	18,864
Other investment: liabilities	26,317	22,120	4,197
D. Net Errors and Omissions	-2,967	-6,341	3,374
E. Reserves and Related Items*	12,467	10,663	1,804

Note: * Excluding valuation changes in exchange rates.
Source: *Balance of Payments*, CBC, February 2018.

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, primary income, and secondary income.

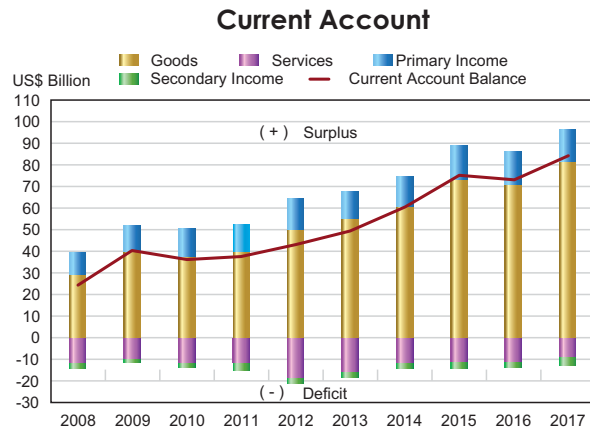
(1) Goods

In 2017, Taiwan's external merchandise trade was spurred by the accelerated recovery of the global economy. The value of exports, on a BOP basis, surged at the fastest pace in five years, increasing by 12.9% to US\$349,808 million from 2016, reflecting the rising volumes and prices of export commodities. Among the components, net exports of goods under merchanting grew by 22.3% to US\$14,829 million. The value of imports increased by 12.3% to US\$268,773 million. Overall, as the increase in exports outpaced that in imports, the trade surplus expanded from US\$70,615 million to US\$81,035 million in the year, hitting a new record high.

According to customs statistics, the value of exports increased by 13.2% to US\$317,381 million on a free on board (FOB) basis, and the value of imports increased by 12.5% to US\$259,499 million on a cost, insurance, and freight (CIF) basis. The top five trading partners of Taiwan in 2017 were Mainland China including Hong Kong (hereafter is this chapter referred to as Mainland China), ASEAN, the US, Europe and Japan.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$130,280 million in 2017, 16.0% higher than the previous year. As a manufacturing hub of the world, Mainland China remained Taiwan's largest export market, with the share of total exports rising to 41.0% in 2017. Of all major export products, parts of electronic products (especially integrated circuits) maintained a leading role, contributing 7.8 percentage points to the growth in Taiwan's exports to Mainland China. Imports from Mainland China grew by 13.8% to US\$51,562 million in 2017. With a share of 19.9%, Mainland China continued to be Taiwan's largest import partner. The trade surplus with Mainland China increased to US\$78,718 million in 2017. As a result, Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies increased by 14.2% to US\$58,584 million in 2017, with a combined share of 18.5%. Imports from these countries increased by 14.4% to US\$31,058 million, with a share of 12.0% of total imports. The bilateral trade between Taiwan and the ASEAN heated up, and the



Source: Balance of Payments, CBC, February 2018.

exports and imports of parts of electronic products increased greatly. In sum, the trade surplus with the ASEAN increased to US\$27,526 million, with Singapore, Vietnam, and the Philippines being the second, third, and fourth largest sources of Taiwan's trade surplus, respectively.

Exports to the US grew by 10.3% to US\$36,976 million, though comprising a smaller share of 11.7% in Taiwan's total exports compared to a year ago. Boosted by greater consumer demand for newer models of gaming laptops and commercial computers, information, communication & audio-video products exported to the US increased by 16.8% over the previous year. Imports from the US rose by 5.6% to US\$30,210 million, but its share in total imports fell to 11.6%. The trade surplus with the US, Taiwan's fifth largest surplus source, increased to US\$6,766 million.

The steady recovery in Europe, coupled with a stronger euro, led our exports to Europe to increase by 11.2% to US\$29,162 million, yet its share of total exports declined to 9.2%. Exports of machinery and base metals performed particularly well among major products, growing by 22.5% and 16.1% from a year earlier, respectively. Imports from Europe increased by 8.7% to US\$31,452 million, though its share of total imports decreased to 12.1%. Consequently, Taiwan's trade deficit with Europe shrank to US\$2,290 million in 2017.

Exports to Japan increased by 6.3% to US\$20,787 million, with its share declining to 6.5%. Exports of machinery and base metals made the biggest contribution to total exports. Imports from Japan increased by 3.3% to US\$41,950 million, with the share dropping to 16.2% of total imports. Japan remained Taiwan's second largest source of imports in 2017. To sum up, the trade deficit with Japan

Trade in Goods by Country

Unit: %

	2017			2016		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	130,280	41.0	16.0	112,277	40.1	-0.2
ASEAN	58,584	18.5	14.2	51,291	18.3	-0.7
US	36,976	11.7	10.3	33,523	12.0	-3.0
Europe	29,162	9.2	11.2	26,221	9.4	1.0
Japan	20,787	6.5	6.3	19,551	7.0	-0.2
Rest of the World	41,592	13.1	11.0	37,459	13.4	-8.8
Total	317,381	100.0	13.2	280,321	100.0	-1.8
Imports						
Mainland China (including Hong Kong)	51,562	19.9	13.8	45,321	19.7	-3.0
Japan	41,950	16.2	3.3	40,622	17.6	4.5
Europe	31,452	12.1	8.7	28,924	12.5	1.5
ASEAN	31,058	12.0	14.4	27,155	11.8	-6.5
US	30,210	11.6	5.6	28,597	12.4	-2.1
Rest of the World	73,267	28.2	22.2	59,949	26.0	-7.6
Total	259,499	100.0	12.5	230,568	100.0	-2.8

Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance.

widened to US\$21,163 million.

(2) Services

Since 2016, the adoption of BPM6 has led Taiwan's services account to run deficits instead of surpluses as under previous manuals, because merchanting was reclassified from services to goods. In 2017, services receipts slightly increased by US\$3,711 million to US\$45,071 million, mainly owing to increased receipts of professional and management consulting services (which is under other business services). Services payments increased by US\$1,752 million to US\$53,451 million, due to rising travel payments. In all, the services deficit narrowed to US\$8,380 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\$551 million to US\$2,586 million in 2017. On the debit side, payments for manufacturing services (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\$86 million to US\$3,411 million. In total, net manufacturing payments decreased from US\$1,462 million to US\$825 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\$486 million to US\$1,318 million, while the payments increased by US\$114 million to US\$974 million. For the first time, the balance of maintenance and repair services, which recorded a net payment of US\$28 million in 2016, turned into a net receipt of US\$344 million in 2017.

Transport receipts increased by US\$1,093 million to US\$9,916 million, reflecting increases in international freight fares received by domestic carriers. Transport payments increased by US\$294 million to US\$11,248 million, resulting from an increase in foreign port charges. Overall, net transport payments decreased from US\$2,131 million to US\$1,332 million.

Even though the number of inbound visitors reached a record high in 2017, travel receipts decreased by US\$1,042 million to US\$12,333 million, owing to diminishing average daily expenditures per inbound visitor and shortened average length of stay. Meanwhile, travel payments increased by US\$1,373 million to its highest-ever level of US\$17,947 million. This was mainly due to a 7.3% increase in the number of outbound travelers. In sum, the deficit on the travel account exhibited a record high of US\$5,614 million.

Other services receipts increased by US\$2,623 million to US\$18,918 million, mainly attributable to an increase in receipts of professional and management consulting services (which is under

other business services). Though charges for intellectual property n.i.e. substantially decreased, increases in expenditures on financial, computer and information, insurance and pension services led other services payments to increase by US\$57 million to US\$19,871 million. In all, the deficit in other services shrank to US\$953 million in 2017.

(3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2017, primary income receipts increased by US\$5,552 million to US\$35,021 million, mainly caused by increases in residents' direct investment income and in interest received by domestic banks. Meanwhile, primary income payments amounted to US\$19,515 million, US\$5,691 million more than the previous year, mostly attributable to an increase in dividends from equity securities paid to nonresidents. Consequently, the surplus on the primary income account narrowed to US\$15,506 million for the year of 2017.

(4) Secondary Income

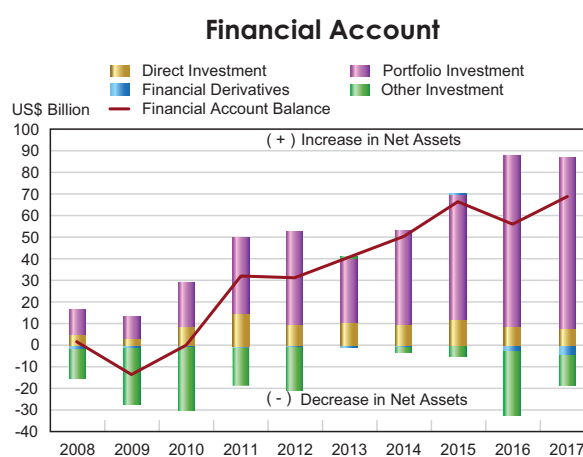
Secondary income receipts grew by US\$304 million year on year to US\$7,248 million in 2017, mainly owing to increases in receipts of gifts and samples, default penalties, and allowances from overseas relatives. Secondary income payments increased by US\$1,244 million to US\$11,323 million, owing to an increase in outward remittances by cross-border workers. Consequently, the deficit on the secondary income account widened to US\$4,075 million for the year of 2017.

Slightly Higher Capital Account Deficit

The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2017, the capital account deficit widened by US\$3 million to US\$12 million.

Net Asset Increase in Financial Account

The financial account showed an increase of US\$68,640 million in net assets. In terms of sub-categories, direct investment and portfolio investment exhibited increases of US\$8,102 million and US\$79,039 million in net assets, respectively. Financial derivatives and other investment exhibited decreases of US\$3,696 million and US\$14,805 million in net assets, respectively.



Source: *Balance of Payments*, CBC, February 2018.

(1) Direct Investment

Direct investment abroad by residents exhibited a decrease of US\$11,357 million in assets, and direct investment in Taiwan by nonresidents showed a decrease of US\$3,255 million in liabilities. Overall, the net assets in direct investment amounted to US\$8,102 million, US\$551 million less than the previous year.

(2) Portfolio Investment

In 2017, portfolio investment abroad by residents increased by US\$82,924 million. Of the components, equity and investment fund shares increased by US\$16,634 million, as residents and pension funds increased holdings of foreign equity securities. Debt securities increased by US\$66,290 million, mainly because insurance companies expanded their investment in debt securities.

On the other hand, local portfolio investment by nonresidents increased by US\$3,885 million. Of the components, equity and investment fund shares increased by US\$4,052 million, and debt securities decreased by US\$167 million. The main reason was that foreign investors increased holdings of Taiwanese stocks and reduced holdings of government bonds.

Overall, portfolio investment showed an increase of US\$79,039 million in net assets in 2017.

(3) Financial Derivatives

Assets in financial derivatives decreased by US\$11,489 million, principally because of gains on transactions of financial derivatives received by banks and other financial corporations.

Liabilities in financial derivatives decreased by US\$7,793 million, mainly because of losses on transactions of financial derivatives paid by banks.

(4) Other Investment

In 2017, other investment abroad by residents increased by US\$11,512 million. Of the components, currency and deposits increased by US\$16,860 million as a result of growing bank deposits with overseas branches; loans decreased by US\$1,044 million because of a reduction in outstanding overseas short-term lending; trade credit decreased by US\$2,535 million; other accounts receivable decreased by US\$1,775 million, owing to a drop in banks' accounts receivable from nonresidents.

Moreover, other inward investment by nonresidents increased by US\$26,317 million. Of the components, currency and deposits increased by US\$14,888 million, because of growing deposits from nonresidents and overseas branches; loans increased by US\$11,902 million, owing to expanded short-term external borrowing by banks; trade credit increased by US\$3,379 million; other accounts payable decreased by US\$3,852 million, owing to falling banks' accounts payable to non-residents.

As a consequence, other investment showed a decrease of US\$14,805 million in net assets in 2017.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the CBC increased by US\$12,467 million, mainly attributable to an increase in the investment income on foreign reserve assets.