

### 3. Balance of Payments

In 2018, Taiwan's current account registered a smaller surplus of US\$68,262 million compared to the previous year, which accounted for 11.6% of nominal GDP, down from 14.4% in the previous year. The financial account posted a net asset increase of US\$51,921 million. The reserves and related items recorded a surplus of US\$12,499 million, which was reflected in the increase in foreign reserve assets held by the CBC.

#### Balance of Payments

Unit: US\$ Million

	(1) 2018	(2) 2017	(1)-(2)
A. Current Account	68,262	82,839	-14,577
Goods: credit (exports)	353,446	349,835	3,611
Goods: debit (imports)	285,713	268,966	16,747
Balance on Goods	67,733	80,869	-13,136
Services: credit (exports)	50,359	45,168	5,191
Services: debit (imports)	57,175	53,847	3,328
Balance on Services	-6,816	-8,679	1,863
Primary income: credit	39,248	34,230	5,018
Primary income: debit	28,577	19,472	9,105
Balance on primary income	10,671	14,758	-4,087
Secondary Income: credit	7,624	7,217	407
Secondary Income: debit	10,950	11,326	-376
Balance on secondary income	-3,326	-4,109	783
B. Capital Account	63	-12	75
C. Financial Account	51,921	70,955	-19,034
Direct investment: assets	18,024	11,552	6,472
Equity and investment fund shares	17,397	10,736	6,661
Debt instruments	627	816	-189
Direct investment: liabilities	6,998	3,291	3,707
Equity and investment fund shares	7,195	4,781	2,414
Debt instruments	-197	-1,490	1,293
Portfolio investment: assets	68,798	81,817	-13,019
Equity and investment fund shares	10,525	14,998	-4,473
Debt securities	58,273	66,819	-8,546
Portfolio investment: liabilities	-11,897	3,885	-15,782
Equity and investment fund shares	-11,110	4,211	-15,321
Debt securities	-787	-326	-461
Financial derivatives: assets	-16,748	-11,505	-5,243
Financial derivatives: liabilities	-18,386	-11,002	-7,384
Other investment: assets	-19,073	11,586	-30,659
Other investment: liabilities	22,365	26,321	-3,956
D. Net Errors and Omissions	-3,905	595	-4,500
E. Reserves and Related Items*	12,499	12,467	32

Note: \* Excluding valuation changes in exchange rates.  
Source: *Balance of Payments*, CBC, February 2019.

## Narrow Current Account Surplus

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

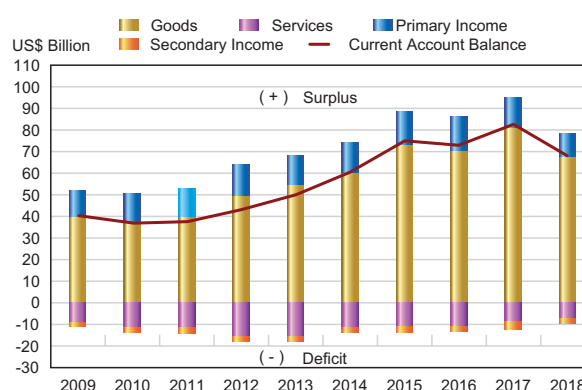
### (1) Goods

Owing to soft global economic growth and a higher base effect, Taiwan's external merchandise trade experienced a slowdown in 2018, with the value of exports, on a BOP basis, increasing by 1.0% to US\$353,446 million from 2017. Among its components, net exports of goods under merchanting recorded a decline of 19.4% to US\$11,745 million. The value of imports increased by 6.2% to US\$285,713 million. Overall, as the increase in imports exceeded that in exports, the trade surplus narrowed from US\$80,869 million to US\$67,733 million in the year. The top five trading partners of Taiwan in 2018 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), Japan, the US, Europe and ASEAN<sup>1</sup>.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$138,391 million in 2018, 6.3% higher than the previous year. As a manufacturing center of the world, Mainland China remained Taiwan's largest export market, with its share of total exports rising to 41.2% in 2018. Of all the major products exported to Mainland China, electronic parts and components (especially integrated circuits) maintained the leading role, with a share of 47.2%, contributing 3.6 percentage points to the growth in Taiwan's exports to Mainland China. Imports from Mainland China grew by 7.1% to US\$55,207 million in 2018. With a share of 19.3%, Mainland China continued to be Taiwan's largest import source. Because the increase in exports exceeded that in imports, the trade surplus with Mainland China increased to US\$83,184 million in 2018 and remained the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies decreased by 0.6% to US\$58,211 million in 2018, dragged down by the weak export performance of electronic parts and components. Their combined share of total exports shrank to 17.3%. Imports from the ASEAN economies increased by 11.3% to US\$34,532 million, with a steady share of 12.0% of total imports. Overall, the trade surplus with the ASEAN economies declined to US\$23,679 million, while Singapore, Vietnam, and the Philippines were the second, third, and fourth largest sources of Taiwan's trade surplus, respectively.

## Current Account



Source: Balance of Payments, CBC, February 2019.

<sup>1</sup> Association of Southeast Asian Nations, including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

In 2018, Taiwan's exports to the US grew 7.5% to US\$39,701 million, comprising a higher share of 11.8% in total exports. Of all the major products exported to the US, machinery and base metals & articles thereof contributed the most by 2.0 and 1.6 percentage points, respectively. Imports from the US rose by 14.9% to US\$34,733 million, with its share in total imports climbing to 12.1%. The trade surplus with the US narrowed to US\$4,968 million for the year, ranking fifth among Taiwan's surplus sources.

Exports to Europe increased by 8.3% to US\$31,572 million, with its share of total exports increasing to 9.4%. The major products leading this growth were base metals & articles thereof, electronic parts and components, and transport equipment. Imports from Europe increased by 10.0% to US\$34,564 million, with the share of total imports remaining at 12.1%. In all, Taiwan's trade deficit with Europe expanded to US\$2,992 million in 2018.

Exports to Japan increased by 11.1% to US\$23,093 million, setting the fastest growth rate since 2011. Its share in Taiwan's total exports went up to 6.9%. As a result of higher raw material costs, mineral products, plastics, rubber and articles thereof, and machinery made higher contributions to the growth than the other major export products to Japan. Imports from Japan increased by 5.3% to US\$44,162 million, with its share of total imports dropping to 15.4%. Japan remained Taiwan's second largest source of imports in 2018. As the increase in exports surpassed that in imports, the trade deficit with Japan shrank to US\$21,070 million.

### Trade in Goods by Country

Unit: %

	2018			2017		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	138,391	41.2	6.3	130,213	41.0	16.0
ASEAN	58,211	17.3	-0.6	58,573	18.5	14.2
US	39,701	11.8	7.5	36,942	11.6	10.2
Europe	31,572	9.4	8.3	29,155	9.2	11.2
Japan	23,093	6.9	11.1	20,782	6.6	6.3
Rest of the World	45,054	13.4	8.3	41,583	13.1	11.0
Total	336,023	100.0	5.9	317,249	100.0	13.2
Imports						
Mainland China (including Hong Kong)	55,207	19.3	7.1	51,555	19.9	13.8
Japan	44,162	15.4	5.3	41,943	16.2	3.3
US	34,733	12.1	14.9	30,237	11.7	5.7
Europe	34,564	12.1	10.0	31,423	12.1	8.6
ASEAN	34,532	12.0	11.3	31,028	12.0	14.3
Rest of the World	83,415	29.1	14.1	73,080	28.2	21.9
Total	286,613	100.0	10.5	259,266	100.0	12.4

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

## (2) Services

In 2018, services receipts increased by US\$5,191 million to US\$50,359 million. Services payments increased by US\$3,328 million to US\$57,175 million. In all, the services deficit continued narrowing to US\$6,816 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 of goods owned by the nonresident, increased by US\$195 million to US\$2,781 million in 2018. 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\$745 million to US\$2,796 million. In total, net manufacturing payments decreased from US\$955 million to US\$15 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\$321 million and reached a record high of US\$1,639 million, attributable to increased receipts for aircraft repairs. On the other hand, the payments slightly decreased by US\$12 million to US\$962 million. Overall, the surplus widened from US\$344 million to US\$677 million.

Transport receipts increased by US\$1,041 million to US\$10,950 million, reflecting increases in international freight fares received by domestic carriers. Transport payments increased by US\$1,106 million to US\$12,435 million, resulting from increases in payments paid to foreign carriers on imports, charge of foreign ports, and passenger fares to foreign airlines. Overall, net transport payments slightly increased from US\$1,420 million to US\$1,485 million in the year.

Travel receipts increased by US\$1,389 million to US\$13,704 million, mainly because the number of inbound visitors climbed by 3.1% on year, reaching a record high, along with an increase in average daily expenditures per inbound visitor. Meanwhile, travel payments increased by US\$1,403 million to its highest ever level of US\$19,421 million. This was mainly due to a 6.3% increase in the number of outbound travelers. In sum, the deficit on the travel account expanded to US\$5,717 million, the largest deficit on record.

Other services receipts grew by US\$2,245 million to US\$21,285 million, and other services payments rose by US\$1,576 million to US\$21,561 million, both mainly attributable to increases in receipts and payments of professional and technical services (which is under other business services). In all, the deficit in other services shrank to US\$276 million in 2018.

### (3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2018, primary income receipts increased by US\$5,018 million to US\$39,248 million, mainly caused by increasing interest received by banks. Meanwhile, primary income payments amounted to US\$28,577 million, US\$9,105 million more than the previous year, mostly attributable to an increase in income from equity securities paid to nonresidents. Consequently, the surplus on the primary income account narrowed to US\$10,671 million for the year of 2018.

### (4) Secondary Income

For the year of 2018, secondary income receipts amounted to US\$7,624 million, reflecting increases in gifts and samples and inward workers' remittances. Secondary income payments amounted to US\$10,950 million, mainly owing to decreases in outward donations, support and workers' remittances. As a whole, the deficit in secondary income narrowed to US\$3,326 million in 2018.

## Capital Account Surplus

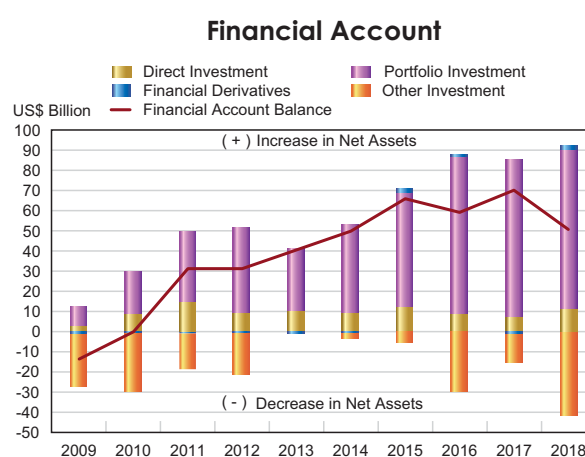
The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2018, the balance of the capital account turned from a deficit to a surplus of US\$63 million, mainly because foreign creditors wrote off the debts of domestic enterprises.

## Net Asset Increase in Financial Account

In 2018, the financial account showed an increase of US\$51,921 million in net assets. In terms of sub-categories, direct investment, portfolio investment, and financial derivatives exhibited increases of US\$11,026 million, US\$80,695 million, and US\$1,638 million in net assets, respectively. Other investment exhibited a decrease of US\$41,438 million in net assets.

### (1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$18,024 million in assets to reach a record high, and direct investment in Taiwan by nonresidents showed an increase of US\$6,998 million. Overall, the net assets in direct investment amounted to US\$11,026 million, US\$2,765 million more than the previous year.



Source: *Balance of Payments*, CBC, February 2019.

## (2) Portfolio Investment

In 2018, portfolio investment abroad by residents increased by US\$68,798 million. Because mutual funds and insurance companies expanded their investment abroad, equity and investment fund shares increased by US\$10,525 million, and debt securities increased by US\$58,273 million.

On the other hand, local portfolio investment by nonresidents decreased by US\$11,897 million. As foreign investors reduced holdings of Taiwanese stocks and European Convertible Bonds, equity and investment fund shares decreased by US\$11,110 million, and debt securities decreased by US\$787 million.

## (3) Financial Derivatives

Assets in financial derivatives decreased by US\$16,748 million, principally because of gains on transactions of financial derivatives received by other financial corporations.

Liabilities in financial derivatives decreased by US\$18,386 million, mainly because of losses on transactions of financial derivatives paid by other financial corporations.

## (4) Other Investment

In 2018, other investment abroad by residents decreased by US\$19,073 million. Of the components, currency and deposits decreased by US\$17,142 million as a result of shrinking overseas deposits from domestic banks; loans dropped by US\$4,132 million because of a decrease in banks' short-term lending to nonresidents; trade credit decreased by US\$6,367 million; other accounts receivable increased by US\$8,563 million, owing to growth in banks' accounts receivable from nonresidents.

Other inward investment by nonresidents increased by US\$22,365 million. Of the components, currency and deposits increased by US\$4,186 million, because of growing deposits from nonresidents; loans increased by US\$7,382 million, owing to expanded short-term external borrowing and repurchase agreement transactions by domestic banks; trade credit increased by US\$7,487 million; other accounts payable increased by US\$3,310 million, owing to an increase in banks' accounts payable to nonresidents.

## **Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the Bank increased by US\$12,499 million mainly owing to increased investment income on foreign reserve assets.