

### 3. BALANCE OF PAYMENTS

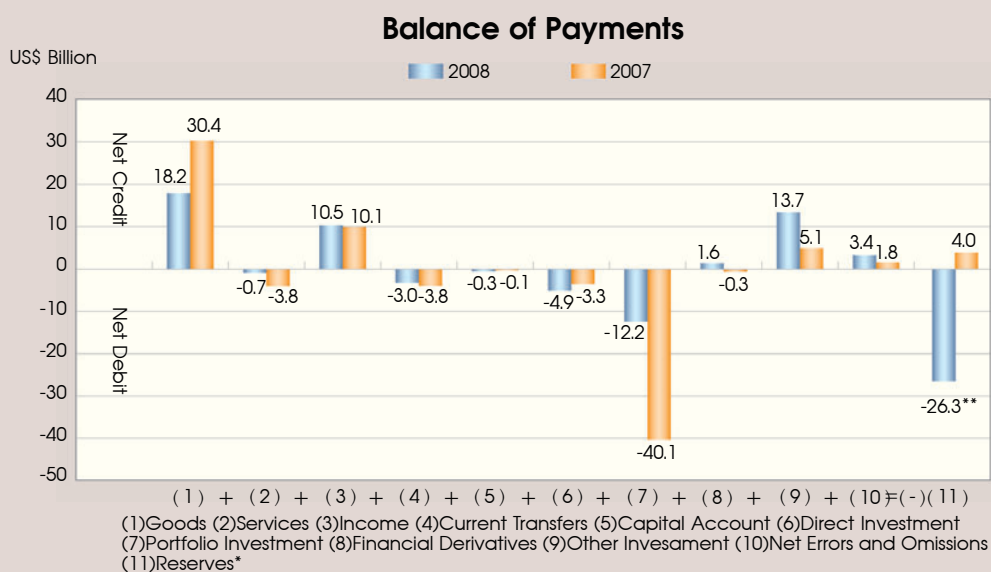
Under the impact of the global financial turmoil, capital flows of Taiwan reached historic highs in scale. Nevertheless, foreign portfolio outflows were partly offset by residents' repatriation of overseas portfolio investment, leading to a mild net outflow of US\$1,779 million in the financial account. The current account surplus decreased to US\$25,024 million, and accounted for a smaller 6.2 percent of nominal GNP compared with the previous year due to a sharp decline in goods exports. As a result, the foreign reserve assets held by the Bank increased by US\$26,274 million.

#### Declining Current Account Surplus

The current account consists of four major items, which are goods, services, income, and current transfers. The current account surplus decreased in 2008 mainly as a result of the substantial decline in the trade surplus of goods.

#### (1) Goods

As the global economic recession adversely impacted Taiwan's exports from the second half of 2008, the value of exports on a balance of payments basis grew by a mere 3.4 percent to US\$254,946 million in 2008, the lowest growth rate since 2001. The value of imports rose to US\$236,770 million, showing a slower growth rate of 9.6 percent. This was primarily led by falling



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

	2008	2007
A. Current Account	25,024	32,975
Goods: exports f.o.b.	254,946	246,500
Goods: imports f.o.b.	-236,770	-216,055
Balance on Goods	18,176	30,445
Services: credit	33,873	31,307
Services: debit	-34,551	-35,102
Balance on Services	-678	-3,795
Income: credit	23,806	23,500
Income: debit	-13,299	-13,368
Balance on Income	10,507	10,132
Current transfers: credit	5,210	4,559
Current transfers: debit	-8,191	-8,366
Balance on Current Transfers	-2,981	-3,807
B. Capital Account	-334	-96
Total, Groups A plus B	24,690	32,879
C. Financial Account	-1,779	-38,656
Direct investment abroad	-10,298	-11,107
Direct investment in R. O. C. (Taiwan)	5,432	7,769
Portfolio investment assets	3,613	-44,993
Portfolio investment liabilities	-15,777	4,904
Financial derivatives assets	7,939	3,691
Financial derivatives liabilities	-6,356	-3,980
Other investment assets	9,511	-5,716
Other investment liabilities	4,157	10,776
Total, Groups A through C	22,911	-5,777
D. Net Errors and Omissions	3,363	3,363
Total, Groups A through D	26,274	-2,414
E. Reserves and Related Items*	-26,274	2,414

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

international energy, raw material, and commodity prices, as well as a decline in derived demand from exports. As a result of a larger increase in imports than in exports, the trade surplus on goods fell to US\$18,176 million for the year, a decrease of 40.3 percent from the previous year.

As indicated by customs' statistics, the top three trading partners for Taiwan in 2008 were China including Hong Kong (hereafter referred to as China), the US, and Japan. Exports to these three countries accounted for 57.9 percent of total exports, while imports from them made up 43.9 percent of total imports.

In terms of Taiwan's trade with China, exports totaled US\$99,579 million for the year, a small reduction of 0.8 percent compared with the previous year. The main reason was China's slowing economic growth due to the global financial crisis from the second half of 2008, which severely

## Direction of Trade in Goods by Country

Unit: %

	2008			2007		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
China (including Hong Kong)	99,579	39.0	-0.8	100,397	40.7	12.6
U. S. A.	30,796	12.0	-4.0	32,077	13.0	-0.9
Europe	29,950	11.7	4.6	28,635	11.6	9.7
Southeast Asia 6*	38,396	15.0	7.3	35,784	14.5	16.7
Japan	17,563	6.9	10.2	15,934	6.5	-2.2
Rest of the World	39,372	15.4	16.3	33,851	13.7	15.1
Total	255,656	100.0	3.6	246,677	100.0	10.1
Imports						
Japan	46,525	19.3	1.3	45,937	21.0	-0.8
U. S. A.	26,332	10.9	-0.7	26,508	12.1	17.0
Europe	24,468	10.2	3.8	23,567	10.7	9.9
Southeast Asia 6*	25,686	10.7	8.4	23,693	10.8	1.7
China (including Hong Kong)	32,910	13.7	10.3	29,840	13.6	11.9
Rest of the World	84,903	35.3	21.8	69,707	31.8	11.8
Total	240,823	100.0	9.8	219,252	100.0	8.2

Note: \* Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.  
Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

impacted exports from Taiwan and reduced the demand for IT products from Taiwanese firms operating there. The share of exports to China in total exports decreased by 1.7 percentage points to 39.0 percent. China remained Taiwan's largest export market in 2008.

Imports from China totaled US\$32,910 millions, up by 10.3 percent, and its share in total imports rose to 13.7 percent in 2008, making China the second largest source of imports. The increase stemmed from the demand for Chinese products due to the division of labor among the industries across the Taiwan Strait. However, the deterioration in global economic growth caused imports from China to decrease from September 2008. The bilateral trade surplus with China declined to US\$66,669 million in 2008, reflecting a 5.5 percent decrease over the previous year. China remained the largest source of Taiwan's trade surplus.

Exports to the US decreased by 4.0 percent in 2008. The share of exports to the US in total exports had been falling since 1998, and dropped further to 12.0 percent in 2008. The continuous decline was mainly due to the competition from China's products and the outward relocation (mainly to China) of local industries. Imports from the US decreased by just 0.7 percent and its share of total imports fell from 12.1 percent in 2007 to 10.9 percent. Because exports decreased relatively faster, the bilateral trade surplus with the US decreased to US\$4,464 million, representing a fall of 19.8 percent.

Exports to Japan increased by 10.2 percent in 2008, and its share in total exports rose to 6.9 percent. Imports from Japan slightly increased by 1.3 percent compared with the previous year, with the share in total imports falling to 19.3 percent. Japan remained Taiwan's largest source of imports. The trade deficit with Japan decreased to US\$28,962 million for the year.

Exports to Europe increased by 4.6 percent in 2008, with the share in total exports rising to 11.7 percent. Imports from Europe increased by 3.8 percent, with the share in total imports amounting to 10.2 percent. The trade surplus with Europe increased from US\$5,068 million in 2007 to US\$5,482 million in 2008.

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 7.3 percent. In particular, exports to Singapore grew by 11.2 percent, making Singapore the second largest source of Taiwan's trade surplus for the year. The share of exports to these countries in total exports rose to 15.0 percent. Imports from these countries rose by 8.4 percent, with the share in total imports declining to 10.7 percent. The trade surplus with the six countries increased to US\$12,709 million in 2008 from US\$12,091 million in 2007. In addition, bilateral trade with Brazil significantly expanded, with export and import growth rates reaching 64.4 percent and 63.4 percent, respectively.

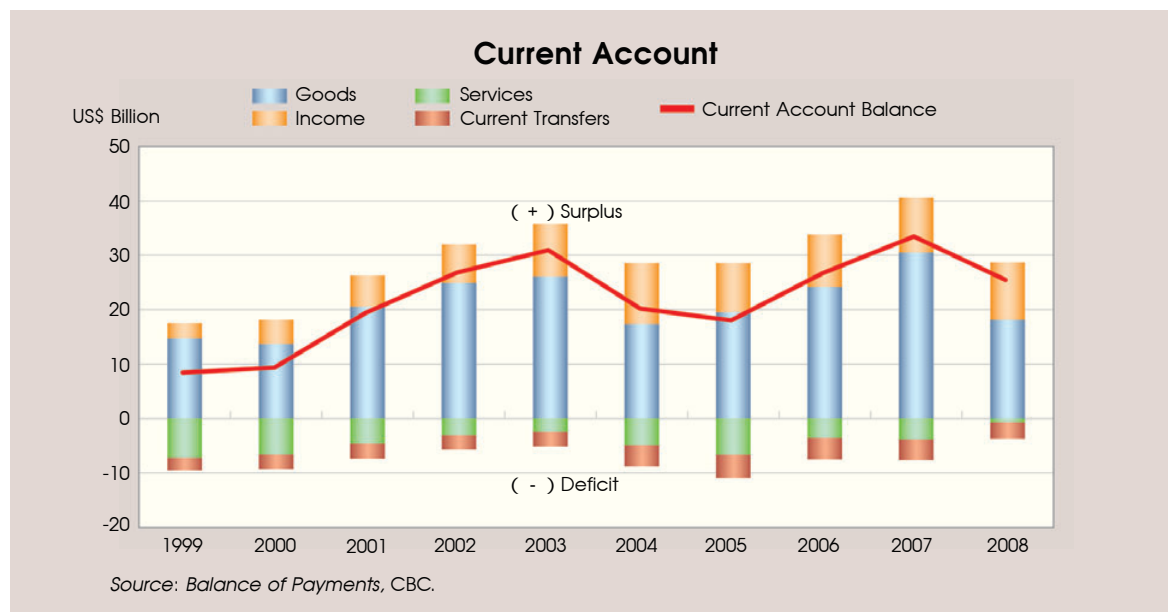
## **(2) Services**

In 2008, service receipts increased by US\$2,566 million to US\$33,873 million, the highest level in history. Service payments fell by US\$551 million to US\$34,551 million. The service deficit largely contracted to US\$678 million in 2008 from US\$3,795 million in 2007.

Of the various components of the services account, net payments with respect to transportation increased from US\$3,433 million recorded a year earlier to US\$4,336 million in 2008, largely due to the increase in import freight expenses paid to foreign carriers. Travel receipts decreased by a mere US\$31 million to US\$5,182 million. Travel payments for the year decreased by US\$619 million to US\$8,451 million, due to a decline in overseas visits by residents. Net travel payments decreased to US\$3,269 million. The surplus in net other services increased from US\$3,495 million in 2007 to US\$6,927 million in 2008, mainly resulting from the decreases in brokerage, professional, and technical services payments.

## **(3) Income**

Income receipts increased to US\$23,806 million in 2008, the highest level in history, which was attributable to the increase in residents' income from direct investment. Income payments for the year amounted to US\$13,299 million, resulting from reduced interest payments due to



interest rate cuts by major industrial countries. The surplus on the income account increased from US\$10,132 million in 2007 to US\$10,507 million in 2008.

#### (4) Current Transfers

Current transfer receipts amounted to US\$5,210 million in 2008, the highest level ever recorded. Current transfer payments for the year decreased by US\$175 million to US\$8,191 million. Net current transfer payments decreased from US\$3,807 million in 2007 to US\$2,981 million in 2008, due to the decrease in outward remittances by residents to support their overseas relatives.

#### Increasing 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 2008, the capital account consistently exhibited a deficit, and the size of this deficit increased to US\$334 million from US\$96 million in 2007, as a result of the increased acquisitions of non-produced, non-financial assets.

#### Surging Capital Movements in the Financial Account

Although the financial account exhibited a mild net outflow of US\$1,779 million, the net foreign portfolio outflow reached a historic high, while the repatriation of portfolio investment by residents exhibited the first net inflow. In terms of sub-categories, direct investment and portfolio investment posted a net outflow of US\$4,866 million and US\$12,164 million, respectively,

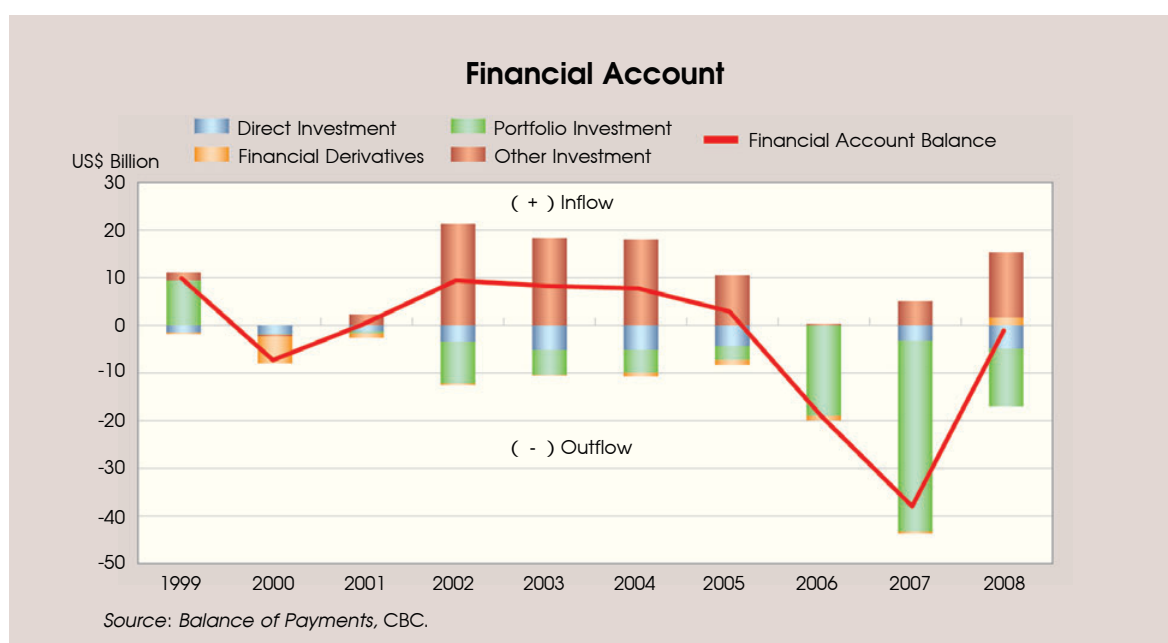
while other investment and financial derivatives posted a net inflow of US\$13,668 million and US\$1,583 million, respectively.

### (1) Direct Investment

Direct investment abroad by residents showed a net outflow of US\$10,298 million, US\$809 million less than in the previous year. Main targets for investment included the electronic parts and components manufacturing industry, the computer and electronic manufacturing industry, and the financial industry. Moreover, China remained the major recipient of Taiwan's direct investment abroad. Direct investment in Taiwan by nonresidents registered a net inflow of US\$5,432 million. Accordingly, direct investment registered a net outflow of US\$4,866 million in 2008, US\$1,528 million more than in 2007.

### (2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net inflow of US\$3,613 million, as residents redeemed their investments in foreign financial products amid the global financial turmoil. This was the first time that portfolio investment abroad by residents showed an inflow. Local portfolio investment by non-residents registered a net outflow of US\$15,777 million in 2008, the highest level ever recorded, mainly because of the offloading of local stocks and bonds among foreign institutional investors to meet the liquidity demand of their headquarters. The net outflow of portfolio investment steeply declined to US\$12,164 million in 2008, compared to US\$40,089 million in 2007.



### **(3) Financial Derivatives**

Financial derivatives assets recorded a net inflow of US\$7,939 million, mainly due to gains from financial derivatives deals by private sectors and the banking sector. Financial derivatives liabilities registered a net outflow of US\$6,356 million, reflecting the gains from financial derivatives deals by nonresidents. As a result, financial derivatives posted a net inflow of US\$1,583 million in 2008.

### **(4) Other Investment**

Other investment abroad by residents recorded a net inflow of US\$9,511 million, representing a decrease in other claims on non-residents by residents. This was mainly because the private sector withdrew overseas deposits. Other local investment by non-residents showed a net inflow of US\$4,157 million, attributable to the borrowings from abroad by residents and the increased deposits from affiliated overseas branches of the banking sector. Therefore, the net inflow of other investment substantially increased to US\$13,668 million in 2008.

### **Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the Bank increased by US\$26,274 million, as a result of the current account surplus exceeding the net outflow in the financial account.