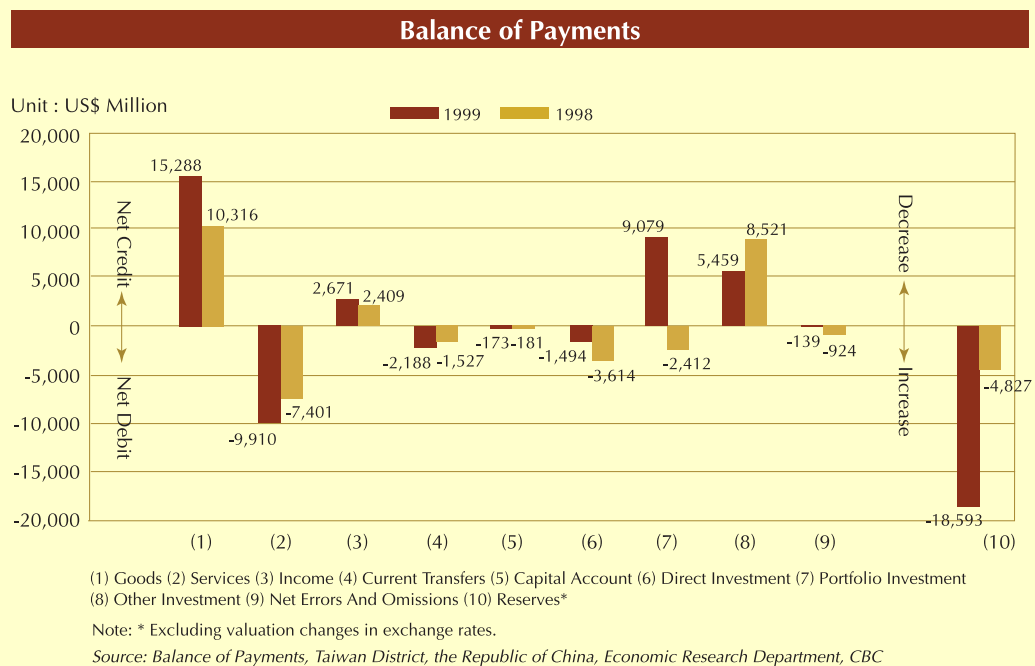


## 2. BALANCE OF PAYMENTS\*

Balance of payments developments in 1999 were characterized by an increase in the current account surplus and a huge net inflow in the financial account. The current account surplus increased from US\$3,437 million in 1998 to US\$5,861 million in 1999. The capital account exhibited a deficit of US\$173 million. The financial account registered a record-high net inflow of US\$13,044 and surpassed the current account surplus for the first time. As a result, the foreign reserve assets held by the Bank increased by US\$18,593 million, the highest level recorded since 1988.

### An Increasing Current Account Surplus

The current account surplus widened in 1999 as a result of the increase in the merchandise trade surplus and net receipts of income.



\* As from 1997, the balance of payments statistics published by the Bank is in accordance with the concepts and definitions contained in the fifth edition of the IMF Balance of Payments Manual.

## Balance of Payments

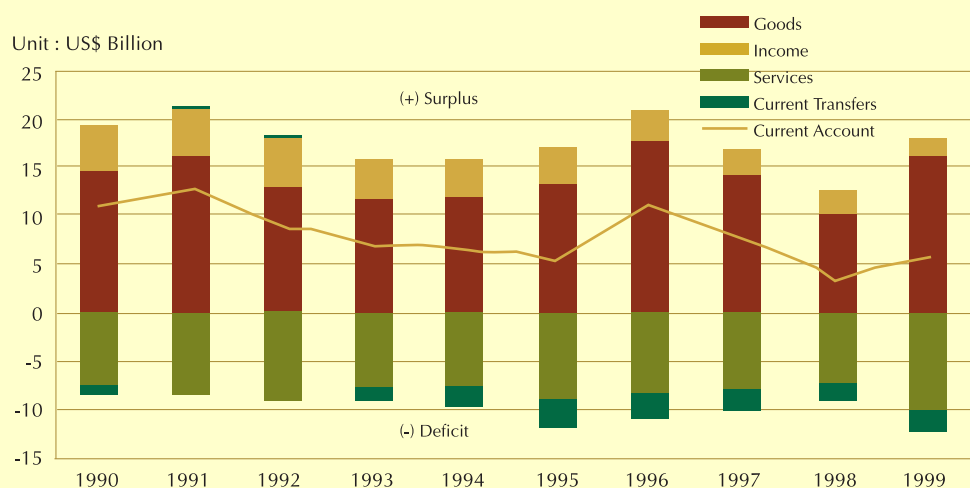
Unit: US\$ Million

Item	1999	1998
A. Current Account	5,861	3,437
1. Goods (f.o.b.)		
Exports	121,132	10,178
Imports	-105,844	-99,862
Balance of Trade	15,288	10,316
2. Services (net)	-9,910	-7,401
Service(credit)	14,642	16,768
Service(Debit)	-24,552	-24,169
3. Income(net)	2,671	2,049
Income(credit)	6,965	6,481
Income(debit)	-4,294	-4,432
4. Current Transfers(net)	-2,188	-1,527
Current Transfers(credit)	3,126	2,943
Current Transfers(debit)	-5,314	-4,470
B. Capital Account	-173	-181
C. Financial Account	13,044	2,495
1. Direct Investment	-1,494	-3,614
2. Portfolio Investment	9,079	-2,412
3. Other Investment	5,459	8,521
D. Net Error and Omissions	-139	-924
Total, Groups A through D	18,593	4,827
E. Reserves <sup>(1)</sup>	-18,593	-4,827

Note : <sup>(1)</sup> Excluding valuation changes in exchange rates.

Source: Balance of Payments, Taiwan District, the Republic of China, Economic Research Department, CBC.

### Current Account



#### (1) Goods

Both exports and imports, when calculated on a balance of payments basis, increased in 1999. The value of exports amounted to US\$121,132

(million, reflecting an increase of 9.9 percent over the previous year. Exports showed a steady growth after the Asian financial crisis subsided. In the fourth quarter, exports surged to the highest level ever recorded, due to the persistent strong growth in the U.S. and the robust recovery in East Asian economies. The value of imports amounted to US\$105,844 million, increasing at an annual rate of 6.0 percent. Imports experienced a decline in the first quarter due to the slowdown in the domestic economy, but began to rebound in the second quarter as the domestic economy gradually picked up. In the second half of 1999, imports showed enormous growth because surging exports spurred domestic demand and brought an upturn in domestic investment. Since exports rose by a faster pace than imports, the surplus on goods increased from US\$10,316 million in 1998 to US\$15,288 million in 1999.

#### Direction of Trade

Country	Year	1999			1998		
		Amount (US\$ Million)	Share (%)	Annual Percentage Change (%)	Amount (US\$ Million)	Share (%)	Annual Percentage Change (%)
<b>Exports</b>							
U.S.A.		30,900	25.4	5.2	29,376	26.6	-0.6
Hong Kong		26,028	21.4	4.9	24,820	22.4	-13.5
Europe		20,326	16.7	3.5	19,638	17.8	6.6
Southeast Asia		14,031	11.5	20.3	11,664	10.5	-27.8
Japan		11,912	9.8	27.8	9,324	8.4	-20.2
Others		18,440	15.2	17.0	15,761	14.3	-10.3
Total		121,638	100.0	10.0	110,583	100.0	-9.4
<b>Imports</b>							
Japan		30,599	27.6	13.3	27,001	25.8	-7.0
U.S.A.		19,696	17.8	0.1	19,679	18.8	-15.3
Europe		17,585	15.9	-14.6	20,585	19.7	-4.7
Southeast Asia		14,429	13.0	14.9	12,555	12.0	-5.3
Hong Kong		2,093	1.9	7.2	1,952	1.9	-2.2
Others		26,296	23.8	14.9	22,894	21.9	-9.6
Total		110,698	100.0	5.8	104,666	100.0	-8.5

Source: Monthly Statistics of Exports and Imports, Taiwan District, the Republic of China, Department of Statistics, Ministry of Finance.

As indicated by the Customs' statistics, exports to the U.S. increased by 5.2 percent in 1999. The share of exports to the U.S. as a proportion of total exports decreased to 25.4 percent in 1999 from 26.6 percent in 1998. Imports from the U.S. also exhibited a growth rate of 0.1 percent, with the share of these imports as a proportion of total imports decreasing from 18.8

percent in 1998 to 17.8 percent in 1999. Because the increase in exports was more than that in imports, the bilateral trade surplus with the U.S. grew to US\$11,204 million.

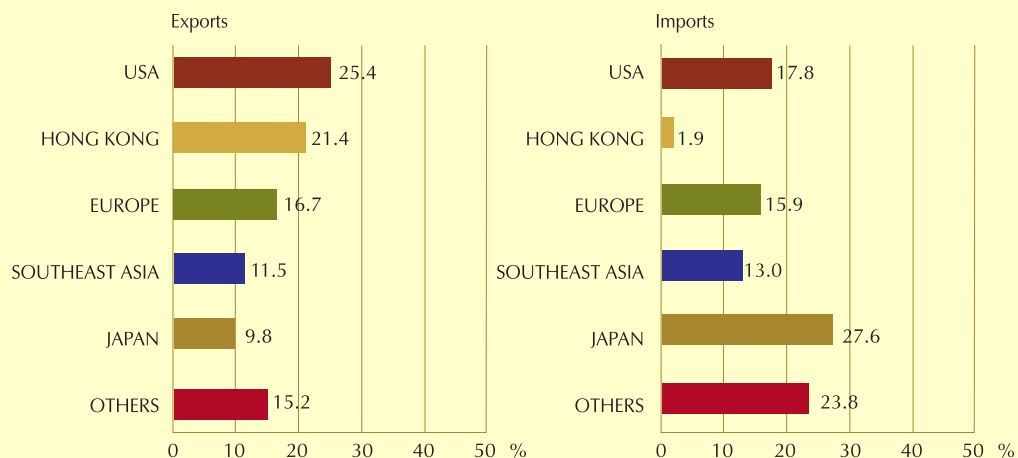
Exports to Hong Kong increased by 4.9 percent in 1999 while its share decreased to 21.4 percent from 22.4 percent in 1998. Imports from Hong Kong grew by 7.2 percent over the same period. As the R.O.C.'s trade surplus with Hong Kong increased to US\$23,936 million, Hong Kong remained the largest source of the R.O.C.'s trade surplus. It is worth noting that most of the R.O.C.'s trade surplus with Hong Kong came about as a result of the surplus arising from its indirect trade with Mainland China. According to the statistics published by the Board of Foreign Trade, exports to Mainland China in the first half of 1999 reflected a mere increase of 8.6 percent on an annual basis because Mainland China's exports suffered a decline from the relative strength of Chinese Renminbi. Mainland China's exports picked up in the second half of the year with the help of several export-stimulating measures and global recovery. The expansion in Mainland China's exports boosted Taiwan's exports as a result. For the year as a whole, the value of exports to Mainland China totaled US\$ 21,236 million, representing an increase of 15.5 percent over the previous year. The share of exports to Mainland China was 17.5 percent. As for the imports from Mainland China, with the increase in permitted imports to 5,666 items and rising demand for Mainland-made raw materials owing to the growing export activities in the second half of 1999, imports from Mainland China grew by 10.0 percent, to US\$4,522 million. The share of imports from Mainland China was 4.1 percent. The tremendous increase in exports to Mainland China led to the widening trade surplus with Mainland China of US\$ 16,704 million. The value of exports, imports and trade surplus with Mainland China all registered record-setting figures in years.

As regards bilateral trade with Japan, the recovery of the Japanese economy caused exports to Japan to increase by 27.8 percent in 1999, the second highest increase in 12 years. The increase was mainly fueled by strong growth in the exports of mechanical appliances and electrical machinery equipments. The share of exports to Japan rose to 9.8 percent in 1999, compared with 8.4 percent in 1998. Imports from Japan increased by 13.3 percent as compared with the previous year, with the share of such imports rising from 25.8 percent in 1998 to 27.6 percent in 1999. Japan remained the R.O.C.'s largest source of imports. The R.O.C.'s trade deficit with Japan rose from US\$17,677 million in 1998 to US\$18,687 million in 1999.

In terms of the R.O.C.'s trade with Europe, exports to Europe rose by 3.5 percent in 1999, but its share declined to 16.7 percent from 17.8 percent in 1998. Because the European Union imposed an antidumping duty on stainless steel screws and nuts and conducted antidumping and anti-subsidy investigations on other articles of steel, the exports of articles of steel significantly retreated. In contrast, the exports of electrical machinery equipments to the European Union increased by 24.1 percent so that overall exports to the European Union registered a positive growth rate. Imports from Europe fell by 14.6 percent in 1999 as a result of fewer military purchases. The share of such imports declined as well, from 19.7 percent in 1998 to 15.9 percent in 1999. As exports increased and imports decreased, the R.O.C.'s trade with Europe changed from a deficit of US\$947 million in 1998 to a surplus of US\$ 2,742 million in 1999.

With respect to the R.O.C.'s trade with Southeast Asia, exports to Southeast Asia increased markedly by 20.3 percent, because successful revival in activities in these former crisis-affected economies elevated the demand for Taiwan-made products. The share of exports to Southeast Asia increased to 11.5 percent in 1999, up from 10.5 percent last year. Major export items were electrical machinery equipments and mechanical appliances. Imports from Southeast Asia increased by 14.9 percent in 1999, with the share of such imports slightly rising to 13.0 percent, compared with 12.0 percent in the previous year. As a result, the R.O.C.'s trade deficit with Southeast Asia narrowed significantly to US\$398 million in 1999 from US\$891 million in 1998, reflecting a marked decline of 55.3 percent.

#### Direction of Trade as per Share of Exports and Imports, 1999



## **(2) Services**

Total service receipts amounted to US\$14,642 million in 1999, representing a decrease of US\$2,126 million over the previous year. Total service payments for the year amounted to US\$24,552 million, US\$383 million more than in 1998. The services account has mostly been in deficit for many years, and this deficit continued to widen to US\$9,910 million in 1999, the highest level ever recorded.

Of the various components of the services account, the net payments in respect of travel decreased to US\$3,836 million from the US\$3,959 million recorded a year earlier, as the number of foreigners visiting Taiwan and their expenditure in Taiwan increased. The net payments in respect of transportation increased from US\$2,118 million in 1998 to US\$2,221 million in 1999, largely due to the drops in the export freight charges received by domestic vessels. The account in respect of other services stood at a deficit of US\$3,853 million in 1999 as compared with a deficit of US\$1,324 million posted in 1998. This was mainly due to the decrease in net remittances proceeds resulting from merchanting.

## **(3) Income**

Total income receipts amounted to US\$6,965 million in 1999, US\$484 million more than in 1998. Total income payments for the year amounted to US\$4,294 million or US\$138 million less than in 1998. The surplus on the income account increased from US\$2,049 million in 1998 to US\$2,671 million in 1999, in part due to the increase of investment income earned on the Bank's foreign exchange reserves, which was caused by the continuing increase in international reserves and rising interest rates in Europe and the U.S. The improved surplus positions of the overseas branches of domestic banks, compared with a deficit a year earlier, contributed to the increase in the surplus on the income account as well.

## **(4) Current Unrequited Transfers**

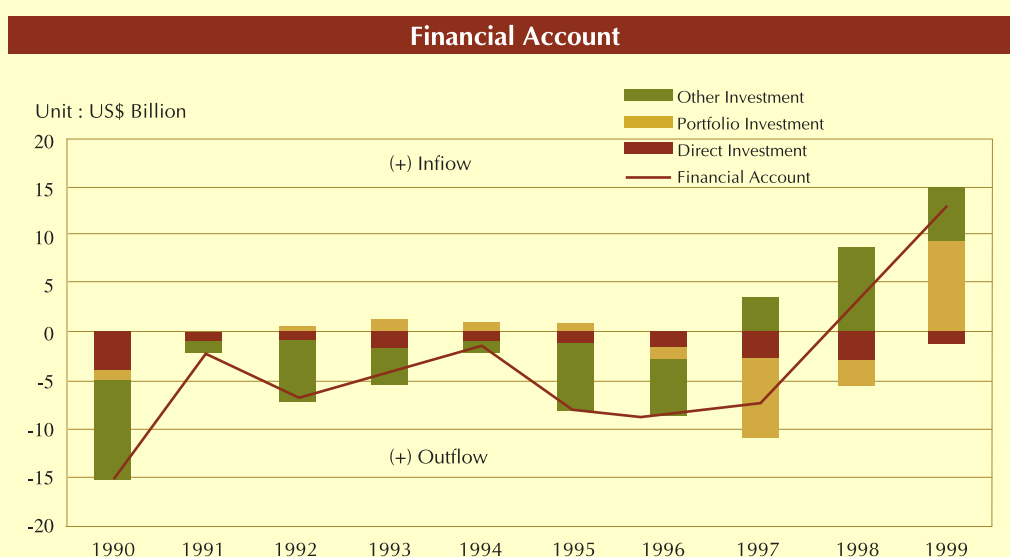
Total current unrequited transfer receipts amounted to US\$3,126 million in 1999, US\$183 million more than in the previous year. Total current unrequited transfer payments for the year expanded US\$ 844 million to US\$5,314 million in 1999. Net current unrequited transfer payments increased from US\$1,527 million in 1998 to US\$2,188 million in 1999, owing to the record-high increase in outward remittances by local residents to support their overseas relatives.

## A Decreasing Capital Account Deficit

The capital account covers capital transfers (debt forgiveness, the transfer of ownership of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, nonfinancial assets. In 1999 the capital account consistently exhibited a deficit, but the size of this deficit decreased to US\$173 million from US\$181 million in 1998 as a result of the decreased outward remittances of migrants.

## A Huge Net Inflow in the Financial Account

The components of the financial account are classified by the functional types of investment: direct investment, portfolio investment, and other investment. The financial account registered a record-high net inflow of US\$13,044 million in 1999 mainly owing to a large-scale increase of US\$13,914 million in foreigners' portfolio investment in Taiwan. This huge net inflow contributed to the surplus of balance of payments in 1999.



### (1) Direct Investment

The net outflow in respect of direct investment declined from US\$3,614 million in 1998 to US\$1,494 million in 1999. This drop was due to the increase in foreign direct investment in Taiwan outpacing the increase in direct investment abroad.

### (2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net outflow of

US\$4,835 million, this being mainly due to the increased exposure to global investment tools and increased foreign equity holdings by private trust funds. Local portfolio investment by nonresidents posted a huge net inflow of US\$13,914 million, due mainly to the fact that Taiwan's stock market has become more attractive for global investment companies. In addition, Morgan Stanley Capital International Incorporation (MSCI) announced the increased weighting ratio of Taiwanese equities value to 100 percent in its MSCI indices. Furthermore, the government gradually lifted the restrictions regarding foreigners' holdings of equities of domestic companies. The limit of foreign ownership in any listed company increased to 50 percent for foreign capital in April 1999. The maximum amount of investment in Taiwan's equities by any individual qualified foreign institutional investor was increased from US\$600 million to US\$1.2 billion in November 1999. As a result, foreigners increased their investment in equities issued by domestic companies. The net inflow of portfolio investment was US\$ 9,079 million in 1999, the highest level on record.

### **(3) Other Investment**

Other investment abroad by residents recorded a net inflow of US\$6,211 million, indicating that other claims by residents on nonresidents had decreased. This decrease was mainly because of the inward remittance of residents' export proceeds retained overseas in expectation of the NT dollar's appreciation. Other local investments by nonresidents stood at a net outflow of US\$752 million, indicating that other liabilities of residents due to nonresidents had decreased, mainly owing to a decrease in borrowing from abroad by the banking sector. The net inflow of other investment sharply decreased from US\$8,521 million in 1998 to US\$5,459 million in 1999.

### **Foreign Exchange Reserves**

For the year as a whole, the foreign exchange assets held by the Bank increased by US\$18,593 million to US\$106.2 billion at the end of 1999, buoyed by the brisk foreign portfolio investment in Taiwan and an expanding surplus on goods.