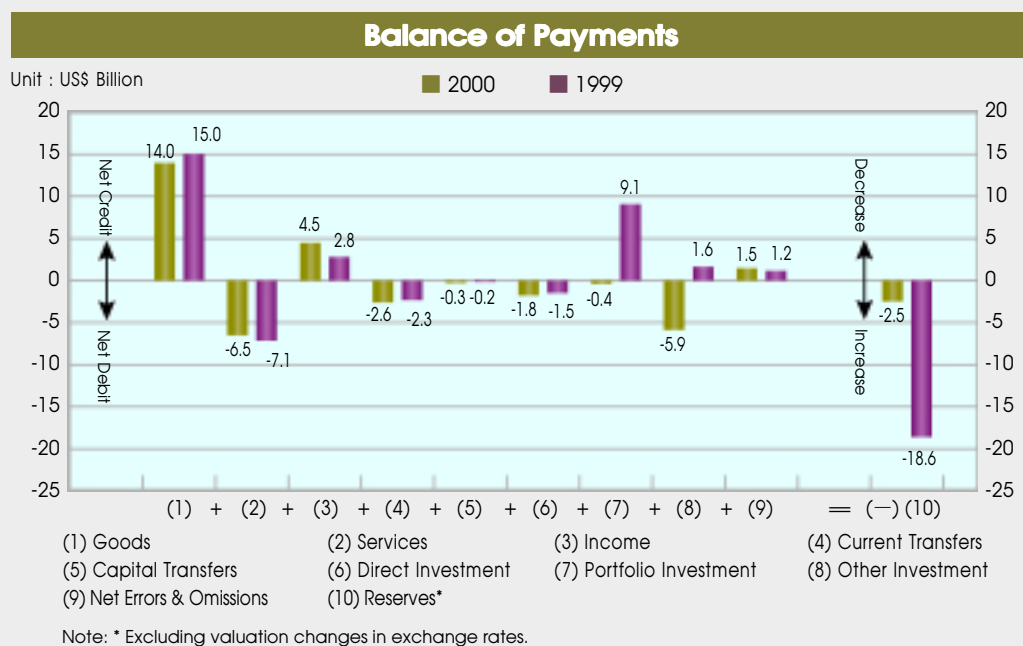


2. Balance of payments*

Balance of payments developments in the year 2000 were characterized by an increase in the current account surplus and a huge net outflow in the financial account. The current account surplus increased by US\$932 million to US\$9,316 million, or 3 percent of Gross National Product (GNP) in 2000. This surplus was the highest level recorded in the last four years. The capital account continued to exhibit a deficit, recording a shortfall of US\$287 million. The financial account exhibited a net outflow of US\$8,019 million, the highest level recorded in the last four years, mainly because the loans made to foreign banks and the currency and deposits abroad of local banks increased. Such an increase may be attributed to the rising foreign exchange positions of banks in the second half of the year, due to the fact that residents increased their holdings of foreign currency deposits in local banks in expectation of the NT dollar's depreciation and the widening interest rate spread between deposits denominated in US dollars and NT dollars. As a result, the foreign reserve assets held by the Bank increased by US\$2,477 million.

An Increasing Current Account Surplus

The current account surplus widened in 2000 as a result of the decrease in the services account deficit and the increase in 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

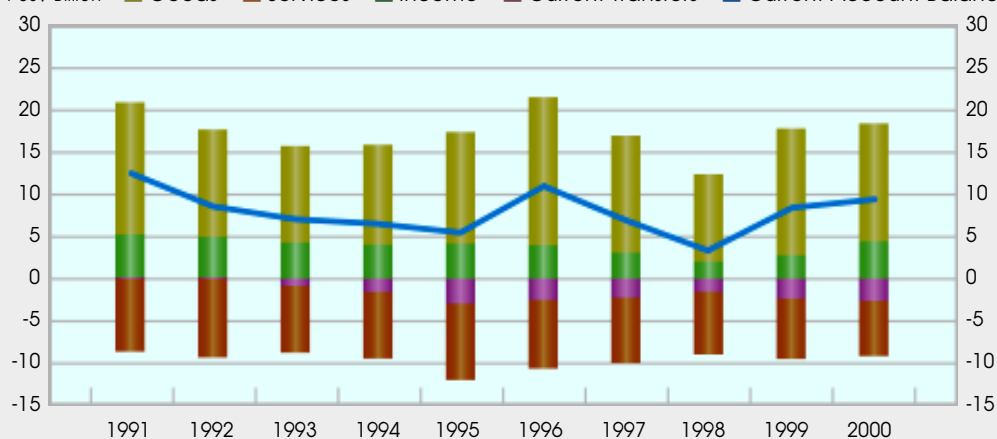
Item	2000	1999
A. Current Account	9,316	8,384
Goods: exports f.o.b.	147,567	121,119
Goods: imports f.o.b.	-133,597	-106,077
Balance on Goods	13,970	15,042
Services: credit	20,340	17,259
Services: debit	-26,860	-24,405
Balance on Services	-6,520	-7,146
Income: credit	9,166	6,965
Income: debit	-4,698	-4,160
Balance on Income	4,468	2,805
Current transfers: credit	3,202	3,126
Current transfers: debit	-5,804	-5,443
Balance on Current transfers	-2,602	-2,317
B. Capital Account	-287	-173
Total, Groups A plus B	9,029	8,211
C. Financial Account	-8,019	9,220
Direct investment abroad	-6,701	-4,420
Direct investment in Taiwan, R.O.C.	4,928	2,926
Portfolio investment assets	-10,087	-4,835
Portfolio investment liabilities	9,712	13,914
Other investment assets	-8,519	2,334
Other investment liabilities	2,648	-699
Total, Groups A through C	1,010	17,431
D. Net Errors And Omissions	1,467	1,162
Total, Groups A through D	2,477	18,593
E. Reserves and Related Items*	-2,477	-18,593

Note: * Excluding valuation changes in exchange rates.

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

Current Account

Unit : US\$ Billion



(1) Goods

Both exports and imports, when calculated on a balance of payments basis, increased in 2000 by double-digit growth rates. The value of exports amounted to US\$147,567 million, reflecting a 13-year record-high increase of 21.8 percent. During the first three quarters of 2000, exports showed a marked increase of 25.3 percent, due to the persistently steady growth in the U.S. and the economic boom in Asian countries. However, in the fourth quarter, the export growth rate fell to 12.9 percent due to the higher base of the previous year. The value of imports substantially increased to US\$133,597 million, reflecting an annual growth rate of 25.9 percent, the highest figure posted in 12 years. In the first three quarters of 2000, imports showed enormous growth of 33.1 percent, because surging exports spurred domestic demand and brought about an upturn in domestic investment. Surging prices of raw materials in the world market contributed to the increase as well. However, in the fourth quarter, the import growth rate fell to 8.2 percent as a result of the higher base of the previous year and the lower growth rate of imports in capital goods. Since the increase in imports was more than that in exports, the surplus on goods decreased from US\$15,042 million in 1999 to US\$13,970 million in 2000.

Direction of Trade

Country \ Year	2000			1999		
	Amount (US\$ Million)	Share (%)	Annual Percentage Change (%)	Amount (US\$ Million)	Share (%)	Annual Percentage Change (%)
Exports						
U.S.A.	34,821	23.5	12.7	30,902	25.4	5.2
Hong Kong	31,356	21.1	20.5	26,012	21.4	4.8
Europe	23,712	16.0	16.7	20,320	16.7	3.5
Southeast Asia	18,072	12.2	28.9	14,022	11.5	20.2
Japan	16,614	11.2	39.6	11,900	9.8	27.6
Others	23,801	16.0	29.1	18,434	15.2	17.0
Total	148,376	100.0	22.0	121,591	100.0	10.0
Imports						
Japan	38,559	27.5	26.0	30,591	27.6	13.3
U.S.A.	25,127	17.9	27.6	19,693	17.8	0.1
Europe	19,012	13.6	8.1	17,584	15.9	-14.6
Southeast Asia	20,185	14.4	39.9	14,429	13.0	14.9
Hong Kong	2,187	1.6	4.5	2,093	1.9	7.2
Others	34,943	25.0	32.9	26,299	23.8	14.9
Total	140,013	100.0	26.5	110,690	100.0	5.8

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

Direction of Trade

As indicated by the Customs' statistics, exports to the U.S. increased by 12.7 percent in 2000,

the highest increase recorded since 1988. However, the share of exports to the U.S. as a proportion of total exports decreased to 23.5 percent in 2000 from 25.4 percent in 1999. During the first half of 2000, the robust growth of the U.S. economy led to stronger U.S. domestic demand, and thus, in turn, resulted in a steady increase in U.S. orders for Taiwan-made products, leading to the above-mentioned rise in exports. Imports from the U.S. recorded a growth rate of 27.6 percent, the highest since 1989, with the share of these imports as a proportion of total imports increasing from 17.8 percent in 1999 to 17.9 percent in 2000. Because the increase in imports was more than that in exports, the bilateral trade surplus with the U.S. declined to US\$9,694 million. The U.S. remained the second largest source of the R.O.C.'s trade surplus.

Exports to Hong Kong increased by 20.5 percent in 2000 while its share of total exports decreased to 21.1 percent in 2000 from 21.4 percent in 1999. Imports from Hong Kong grew by 4.5 percent over the same period. As the R.O.C.'s trade surplus with Hong Kong increased to US\$29,169 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 was the result of the surplus arising from its indirect trade with Mainland China. According to the statistics published by the Board of Foreign Trade, the value of exports to Mainland China totaled US\$26,162 million, representing an increase of 23.3 percent over the previous year. The three major export items to Mainland China were electrical machinery and related parts, mechanical appliances and related parts, and items made of plastic, which grew by 30.1 percent, 33.0 percent, and 34.1 percent, respectively. These three categories accounted for 52.9 percent of R.O.C. exports to Mainland China. These large increases were the result of the marked growth of the R.O.C.'s cross-strait investment in these industries, which spurred the demand for Taiwan-made products. The share of exports to Mainland China was 17.6 percent. As for the imports from Mainland China, with the increase in permitted imports to 5,788 items and rising demand for Mainland-made raw materials owing to growing export activities, imports from Mainland China grew by 37.5 percent to US\$6,223 million. The share of imports from Mainland China was 4.4 percent. As the increase in exports was larger than that in imports, the R.O.C.'s trade surplus with Mainland China rose to US\$19,939 million. The value of exports, imports and the trade surplus with Mainland China all registered record-high figures.

As regards bilateral trade with Japan, the recovery of the Japanese economy caused exports to Japan to increase by 39.6 percent in 2000, the second highest increase in 13 years. This made Japan become the R.O.C.'s best-performing export market in 2000. 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 11.2 percent in 2000, compared with 9.8 percent in 1999. Imports from Japan increased by 26.0 percent as compared with the previous

year. The share of such imports declined slightly from 27.6 percent in 1999 to 27.5 percent in 2000. As imports grew by a faster pace than exports, the R.O.C.'s trade deficit with Japan mounted to a record-high level of US\$21,946 million, an increase of 17.4 percent from 1999. Japan remained the R.O.C.'s largest source of imports.

In terms of the R.O.C.'s trade with Europe, exports to Europe rose by 16.7 percent in 2000, but its share of total exports declined to 16.0 percent from 16.7 percent in 1999. The R.O.C.'s leading export items to Europe in 2000 were mechanical appliances and electrical machinery. Imports from Europe rose by 8.1 percent in 2000, with the share of such imports decreasing to 13.6 percent of total imports from 15.9 percent in 1999. The three major trading partners in Europe were the Netherlands, Germany, and the U.K. Exports to these three countries grew by 17.1 percent, 19.9 percent and 17.7 percent, while imports grew by 22.4 percent, 4.3 percent and 12.6 percent, respectively. As the increase in exports was more than that in imports, the R.O.C.'s trade surplus with Europe rose to US\$4,699 million in 2000 from US\$ 2,736 million in 1999.

With respect to the R.O.C.'s trade with Southeast Asia (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam), exports to Southeast Asia increased markedly by 28.9 percent, because the successful recovery in the economic activities of these former crisis-affected economies elevated the demand for Taiwan-made products. The share of exports to Southeast Asia increased to 12.2 percent in 2000, up from 11.5 percent last year. Major export items were electrical machinery equipments and mechanical appliances. Imports from Southeast Asia increased by 39.9 percent in 2000, with the share of such imports rising to 14.4 percent, compared with 13.0 percent in the previous year. As a result, the R.O.C.'s trade deficit with Southeast Asia rose significantly to US\$2,113 million in 2000 from US\$407 million in 1999.

(2) Services

Total service receipts amounted to US\$20,340 million in 2000, representing an increase of US\$3,081 million over the previous year. Total service payments for the year amounted to US\$26,860 million, US\$2,455 million more than in 1999. The services account has predominantly been in deficit over the years. In 2000, this deficit decreased to US\$6,520 million from the US\$7,146 million recorded in 1999.

Of the various components of the services account, the net payments with respect to transportation increased from US\$2,066 million in 1999 to US\$2,386 million in 2000, largely due to the increased service charges in overseas ports. Total travel receipts amounted to US\$4,118 million, the highest level ever recorded, as the number of nonresidents visiting Taiwan and their expenditure in Taiwan increased. Total travel payments for the year expanded US\$709 million to US\$8,107 million in 2000, as the number of residents going abroad increased. The net payments

in respect of travel increased to US\$3,989 million from the US\$3,827 million recorded a year earlier. The account in respect of other services stood at a deficit of US\$145 million in 2000 as compared with a deficit of US\$1,253 million posted in 1999. This was mainly due to the increase in net remittances proceeds resulting from merchanting.

(3) Income

Total income receipts increased by US\$2,201 million to US\$9,166 million in 2000, the highest level ever recorded. Total income payments for the year amounted to US\$4,698 million, or US\$538 million more than in 1999. The surplus on the income account increased from US\$2,805 million in 1999 to US\$4,468 million in 2000, in part due to the increase of investment income earned on the Bank's foreign exchange reserves and earnings on deposits abroad by local banks, which was caused by the continuing increase in international reserves and rising interest rates in Europe and the U.S.

(4) Current Transfers

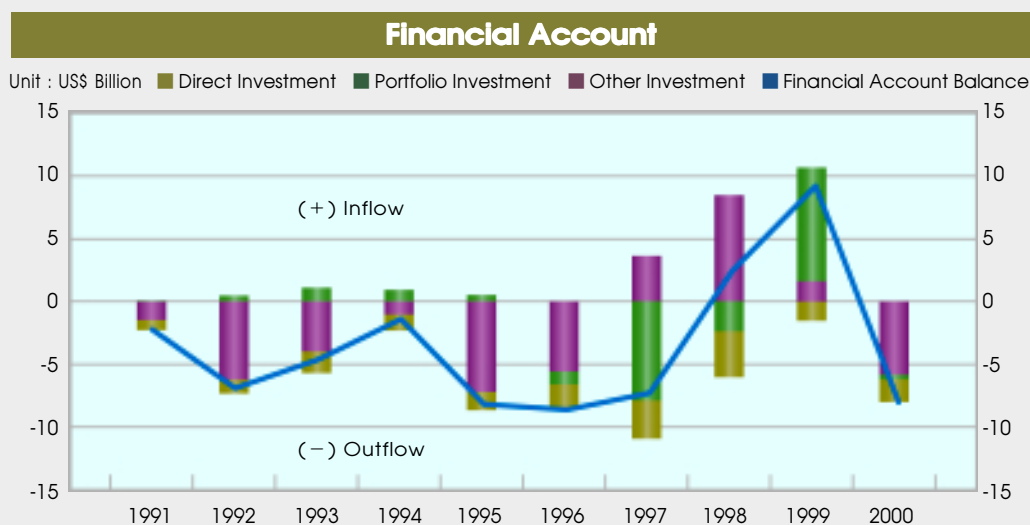
Total current transfer receipts amounted to US\$3,202 million in 2000, US\$76 million more than in the previous year. Total current transfer payments for the year expanded US\$361 million to US\$5,804 million in 2000. Net current transfer payments increased from US\$2,317 million in 1999 to US\$2,602 million in 2000, owing to the record-high level of outward remittances by residents to support their overseas relatives.

An Increasing 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 2000 the capital account consistently exhibited a deficit, and the size of this deficit increased to US\$287 million from US\$173 million in 1999 as a result of the increased outward remittances of migrants.

A Huge Net Outflow 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. In 2000, both the value of residents' investment abroad and nonresidents' investment in Taiwan all registered record-high figures. The financial account exhibited a huge net outflow of US\$8,019 million in 2000, the highest level recorded over the past four years.



(1) Direct Investment

Direct investment abroad by residents exhibited a net outflow of US\$6,701 million, only second to the highest level registered in 1989. Direct investment in Taiwan by nonresidents posted a record-high net inflow of US\$4,928 million. The net outflow in respect of direct investment increased from US\$1,494 million in 1999 to US\$1,773 million in 2000, due to the increase in direct investment abroad outpacing the increase in foreign direct investment in Taiwan.

(2) Portfolio Investment

Portfolio investment abroad by residents exhibited a huge net outflow of US\$10,087 million, the highest level ever recorded. This was 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\$9,712 million, the second highest level ever recorded, mainly due to the fact that nonresidents increased their holdings of equities and global depositary receipts (GDRs) issued by domestic companies. In addition, Morgan Stanley Capital International Incorporation (MSCI) announced the increased weighting ratio of Taiwanese equities value to 80 percent from 65 percent in its MSCI indices. Furthermore, in an orderly manner, the government lifted the restrictions regarding nonresidents' holdings of equities of domestic companies. The ceiling on the maximum amount of investment in Taiwan's equities by any individual qualified foreign institutional investor was increased to US\$2 billion by the Securities and Futures Commission (SFC) in November 2000. Later in December, the SFC further removed the ceiling restriction imposed on foreign ownership of any listed company, except for certain specific industries. As a result, nonresidents increased their investment in equities issued by domestic

companies. However, portfolio investment exhibited a net outflow of US\$375 million in 2000, compared with a net inflow of US\$9,079 million in 1999.

(3) Other Investment

Other investment abroad by residents recorded a net outflow of US\$8,519 million, indicating that other claims by residents on nonresidents had increased. This increase was mainly because the loans made to foreign banks and the currency and deposits abroad of local banks increased. The increase may be attributed to the increase of foreign exchange positions of banks in the second half of the year, due to the fact that residents increased their holding of foreign currency deposits in local banks in expectation of the NT dollar's depreciation and the widening interest rate spread between US dollar deposits and NT dollar deposits. Other local investments by nonresidents stood at a net inflow of US\$2,648 million, indicating that other liabilities of residents due to nonresidents had increased, mainly owing to an increase in trade credit received and in borrowing from abroad by the private sector. Other investment reversed from a net inflow of US\$1,635 million in 1999 to a net outflow of US\$5,871 million in 2000.

Increase in Foreign Exchange Reserves

For the year as a whole, the foreign exchange assets held by the Bank increased by US\$2,477 million. At the end of 2000, the CBC had total international reserves of US\$111,370 million, of which US\$106,742 million was held in foreign exchange reserves, and US\$4,628 million in gold. These foreign exchange reserves are sufficient to meet the need of nine months' imports for the R.O.C.

Direction of Trade as per Share of Exports & Imports

