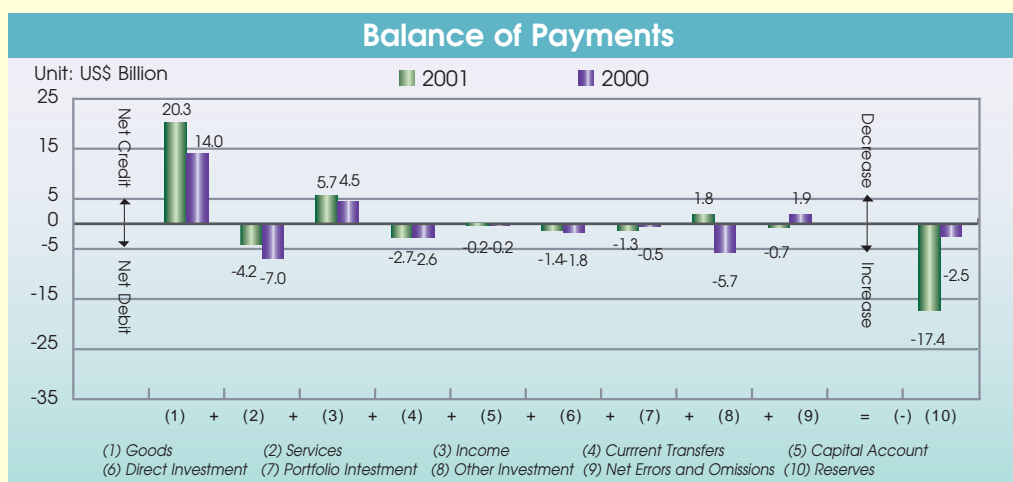


2. BALANCE OF PAYMENTS *

The balance of payments remained in good shape in 2001, and was characterized by a huge increase in the current account surplus and a mild net outflow in the financial account. The current account surplus registered a record-high figure of US\$19,028 million, which was up from the previous year's US\$8,903 million and accounted for 6.6 percent of GNP. The capital account registered a deficit of US\$163 million. The financial account exhibited a net outflow of US\$836 million, down from US\$8,019 million of the previous year. As a result, the foreign reserve assets held by the Bank increased by US\$17,353 million, the fourth highest annual increase on record.

Huge Increase in Current Account Surplus

The components of the current account include goods, services, income and current transfers. The current account surplus widened in 2001 mainly as a result of the increase in the merchandise trade surplus and the decrease in the deficit on the services account.



* As from 1997, the balance of payments statistics published by the Bank are 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

	2001	2000
A. Current Account	19,028	8,903
Goods: exports f.o.b.	122,080	147,548
Goods: imports f.o.b.	-101,803	-133,531
Balance on Goods	20,277	14,017
Services: credit	20,507	19,952
Services: debit	-24,714	-26,930
Balance on Services	-4,207	-6,978
Income: credit	9,538	9,166
Income: debit	-3,842	-4,698
Balance on Income	5,696	4,468
Current transfers: credit	2,607	3,202
Current transfers: debit	-5,345	-5,806
Balance on Current transfers	-2,738	-2,604
B. Capital Account	-163	-287
Total, Groups A plus B	18,865	8,616
C. Financial Account	-836	-8,019
Direct investment abroad	-5,480	-6,701
Direct investment in Taiwan, R.O.C.	4,109	4,928
Portfolio investment assets	-12,427	-10,087
Portfolio investment liabilities	11,136	9,559
Other investment assets	-1,861	-8,368
Other investment liabilities	3,687	2,650
Total, Groups A through C	18,029	597
D. Net Errors And Omissions	-676	1,880
Total, Groups A through D	17,353	2,477
E. Reserves and Related Items*	-17,353	-2,477

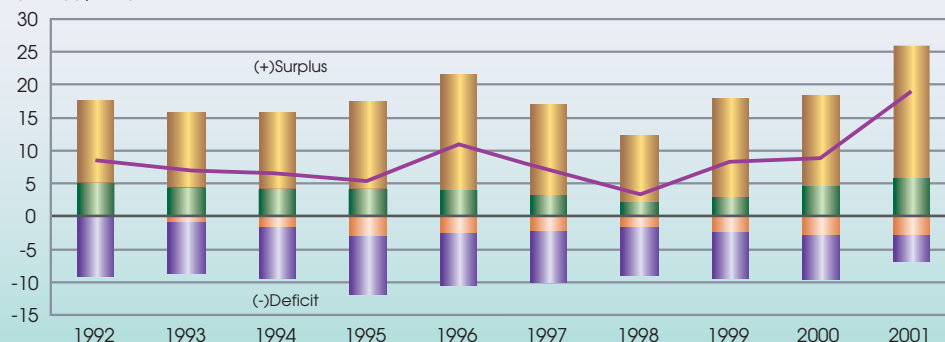
Note: * Excluding valuation changes in exchange rates.

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

Current Account

■ Current Transfers
 ■ Income
 ■ Services
 ■ Goods
 ■ Current Account Balance

Unit: US\$ Billion



(1) Goods

Both exports and imports, when calculated on a balance of payments basis, declined by double-digit percentage points and registered their biggest drops ever. The value of exports receded by US\$25,468 million or 17.3 percent to US\$122,080 million, due to the following reasons: (1) the slowdown in the global economy; (2) the deep recession in the electronics and telecommunications industries worldwide; (3) the continued outward relocation of local industries, mainly to Mainland China; and (4) the higher base of the previous year. The value of imports substantially declined by US\$31,728 million or 23.8 percent to US\$101,803 million, due to the sluggishness of domestic investment and consumption, and the higher base of the previous year. Falling prices of raw materials in the world market contributed to the decline as well. Since the decrease in imports was more than that in exports, the surplus on goods substantially increased by 44.7 percent from the previous year's US\$14,017 million to US\$20,277 million for the year 2001.

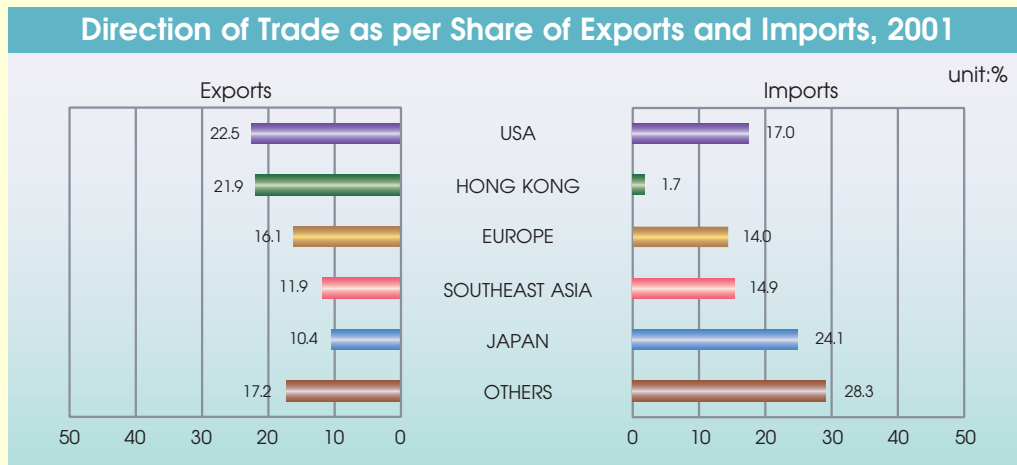
As indicated by the Taiwan Customs' statistics, exports to the U.S., measured on a F.O.B. basis, decreased by 20.6 percent in 2001. The share of exports to the U.S. as a proportion of total exports decreased to 22.5 percent from 23.5 percent in 2000. Imports from the U.S. declined by 27.4 percent, and its share of total imports decreased from 17.9 percent to 17.0 percent in 2001. Because the decrease in exports was more than that in imports, the

Direction of Trade by Country

Unit: %

	2001			2000		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
U.S.A.	27,654	22.5	-20.6	34,815	23.5	12.7
Hong Kong	26,961	21.9	-14.0	31,336	21.1	20.5
Europe	19,808	16.1	-16.5	23,713	16.0	16.7
Southeast Asia	14,589	11.9	-19.2	18,063	12.2	28.8
Japan	12,759	10.4	-23.1	16,599	11.2	39.5
Others	21,095	17.2	-11.3	23,794	16.0	29.1
Total	122,866	100	-17.2	148,321	100	22.0
Imports						
Japan	25,848	24.1	-33.0	38,558	27.5	26.0
U.S.A.	18,229	17.0	-27.4	25,126	17.9	27.6
Southeast Asia	15,955	14.9	-21.0	20,185	14.4	39.9
Europe	14,989	14.0	-21.2	19,013	13.6	8.1
Hong Kong	1,849	1.7	-15.4	2,187	1.6	4.5
Others	30,367	28.3	-13.1	34,942	25.0	32.9
Total	107,237	100	-23.4	140,011	100	26.5

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



bilateral trade surplus with the U.S. declined to US\$9,425 million, reflecting a 2.7 percent fall. The U.S. remained the second largest source of Taiwan's trade surplus.

Exports to Hong Kong decreased by 14.0 percent in 2001, while its share of total exports increased to 21.9 percent for the year from 21.1 percent in 2000. Imports from Hong Kong declined by 15.4 percent while its share of total imports slightly rose by 0.1 percent to 1.7 percent in 2001. Although Taiwan's trade surplus with Hong Kong decreased by 13.8 percent to US\$25,112 million, Hong Kong remained the largest source of Taiwan's trade surplus. It is worth noting that most of Taiwan's trade surplus with Hong Kong arose from Taiwan's indirect trade with Mainland China.

The value of exports to Mainland China including those transited via Hong Kong, totaled US\$24,061 million for the year, representing a decline of 8 percent when compared with the previous year. The decrease was attributable to the sagging demand for Taiwan's major exports, including electronics, information and telecommunications products. However, this decrease was not as steep as in other major export markets, and the share of exports to Mainland China increased by 2 percentage points to 19.6 percent. The three major export items to Mainland China were electrical machinery and related parts, mechanical appliances and related parts, and items made of plastic. During the same period, imports from Mainland China declined by 5.2 percent to US\$5,902 million. The share of imports from Mainland China, however, rose by 1.1 percent to 5.5 percent. Because the decrease of exports was larger than that of imports, Taiwan's trade surplus with Mainland China fell to US\$18,159 million, representing a decrease of 8.8 percent.

Regarding bilateral trade with Japan, the rapid downturn of the Japanese economy and the deep recession in the electronics and communications industries caused exports to Japan

to decrease by 23.1 percent in 2001, and the share of exports to Japan fell to 10.4 percent from 11.2 percent a year earlier. The two major export items to Japan were mechanical appliances and electrical machinery equipment. Imports from Japan decreased by 33.0 percent compared with the previous year. The share of such imports declined from 27.5 percent in 2000 to 24.1 percent in 2001. Japan remained Taiwan's largest source of imports. As imports fell at a faster pace than exports, Taiwan's trade deficit with Japan registered a considerable decline of 40.4 percent to US\$13,089 million for the year from US\$21,959 million in 2000, the first decline in the deficit since 1997.

In terms of Taiwan's trade with Europe, exports to Europe fell by 16.5 percent in 2001, but its share of total exports climbed up to 16.1 percent from 16.0 percent in 2000. While exports to Germany decreased by 8.4 percent, those to the other major trading partners in Europe declined by more than 10 percent. Taiwan's leading export items to Europe in 2001 were mechanical appliances and electrical machinery. Imports from Europe decreased by 21.2 percent in 2001, with the share of imports increasing to 14.0 percent of total imports from 13.6 percent in 2000. Imports from France grew by 16.4 percent, the largest increase among the European countries. France replaced the Netherlands to become Taiwan's second largest source of imports from Europe, second only to Germany. The increase in French imports was due to the increased imports of its aircraft products. As the decrease of imports was more than that of exports, Taiwan's overall trade surplus with Europe rose from US\$4,700 million to US\$4,819 million in 2001.

With respect to Taiwan's trade with Southeast Asia, exports to the six major ASEAN countries including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam decreased by 19.2 percent. The share of exports to these countries decreased from 12.2 percent in 2000 to 11.9 percent in 2001. Imports from these countries declined by 21 percent in 2001, with the share of imports rising to 14.9 percent, compared with 14.4 percent in the previous year. As a result, Taiwan's trade deficit with the six countries fell significantly to US\$1,366 million in 2001 from US\$2,122 million in 2000.

(2) Services

Total service receipts amounted to US\$20,507 million in 2001, an increase of US\$555 million as compared with the previous year. Total service payments for the year decreased by US\$2,216 million to US\$24,714 million. The services account has continually been in deficit. In 2001, this deficit narrowed to US\$4,207 million from US\$6,978 million recorded in 2000.

Of the various components of the services account, net payments with respect to transportation increased from US\$2,467 million recorded a year earlier to US\$1,996 million in

2001, largely due to the drops in import freight expenses and service charges at overseas ports. Total travel receipts posted a record high of US\$4,054 million, as expenditure of nonresidents visiting Taiwan increased. Total travel payments for the year declined by US\$788 million or 15.9% to US\$7,319 million, the lowest value recorded since 1993. The decrease in travel payments was mainly because residents travelling to North America declined by more than 30 percent in the fourth quarter of 2001, following the September 11 terrorist attacks in the U.S. As a result, net travel payments declined to US\$3,265 million, down from US\$4,369 million in 2000. The account of other services reversed from a deficit of US\$142 million in 2000 to a surplus of US\$1,054 million for the year, the first surplus on record. This surplus was mainly due to a huge increase in net inward remittances related to merchanting, bringing other service receipts to register a historic high of US\$12,929 million in 2001.

(3) Income

Total income receipts increased by US\$372 million to US\$9,358 million in 2001, the highest level ever recorded. Total income payments for the year amounted to US\$3,842 million, US\$856 million less than in 2000. The surplus on the income account increased from US\$4,468 million in 2000 to US\$5,696 million in 2001, mainly due to increased inward remittances of interests earnings and equity dividends abroad by residents, as well as decreased outward remittances from non-residents' portfolio investment income.

(4) Current Transfers

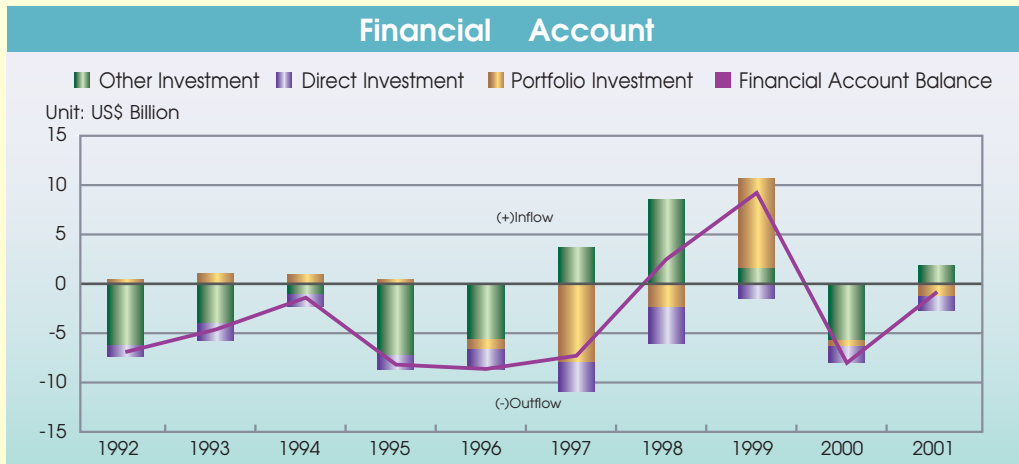
Total current transfer receipts amounted to US\$2,607 million in 2001, US\$595 million less than in the previous year. Total current transfer payments for the year decreased by US\$461 million to US\$5,345 million. Net current transfer payments increased from US\$2,604 million to US\$2,738 million in 2001, owing to the decline in outward remittances by residents to support their overseas relatives.

Shrinking Capital Account Deficit

The capital account includes capital transfers (debt forgiveness, ownership transfer of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, non-financial assets. In 2001, the capital account consistently exhibited a deficit, but the gap narrowed by US\$124 million to US\$163 million, the lowest figure recorded since 1991. The decrease was mainly as a result of the decreased outward remittances of migrants.

Decreasing Outflow in the Financial Account

In 2001, the financial account exhibited a net outflow of US\$836 million. A considerable decline when compared with US\$8,019 million recorded in the previous year. The components of the financial account are classified by the functional types of investment, i.e. direct investment, portfolio investment and other investment.



(1) Direct Investment

Direct investment abroad by residents accounted for a net outflow of US\$5,480 million, US\$1,221 million less than in the previous year. This net outflow was the third highest on record, only surpassed by the outflows recorded in 1989 and 2000. Direct investment in Taiwan by nonresidents posted the second highest net inflow on record of US\$4,109 million. The net outflow of direct investment decreased from US\$1,773 million in 2000 to US\$1,371 million in 2001.

(2) Portfolio Investment

Portfolio investment abroad by residents exhibited a huge net outflow of US\$12,427 million, the highest level ever recorded. This was mainly due to the increased exposure to global investment tools and increased foreign equity holdings by local private trust funds. Local portfolio investment by nonresidents posted a huge net inflow of US\$11,136 million, second only to the record inflow posted in 1999, representing foreign institutional investors' positive outlook toward Taiwan's market. The inflow was attributable to nonresidents' increased holding of equities and global depositary receipts issued by domestic companies. As a result, portfolio investment exhibited a net outflow of US\$1,291 million in 2001, up from a net outflow of US\$ 528 million in 2000.

(3) Other Investment

Other investment abroad by residents recorded a net outflow of US\$1,861 million, representing an increase of other claims on nonresidents by residents. Other local investments by nonresidents stood at a net inflow of US\$3,687 million, representing an increase of residents' other liabilities to nonresidents, which can be mainly attributed to the increased inflow of foreign funds in the banking sector, as well as the decreased foreign currency deposits with local banks in the third quarter of 2001. As a result, other investment reversed from a net outflow of US\$5,718 million in 2000 to a net inflow of US\$1,826 million in 2001.

Marked Increase in Foreign Exchange Reserves

For the year as a whole, the foreign exchange reserve assets held by the Bank increased by US\$17,353 million. On a quarterly basis, a decrease of US\$601 million in the Bank's reserve assets occurred in the second quarter, as a result of lackluster economic performance, expectation for further depreciation of the NT dollar and the increase of residents' foreign currency deposits with local banks. For the other three quarters of 2001, reserve assets posted increases due to huge current account surpluses, massive foreign capital inflows and declines of residents' foreign currency deposits with local banks. As a consequence, the total amount of foreign exchange reserves held by the Bank rose to a historic high of US\$122.2 billion at the end of the year.