

## 2. BALANCE OF PAYMENTS

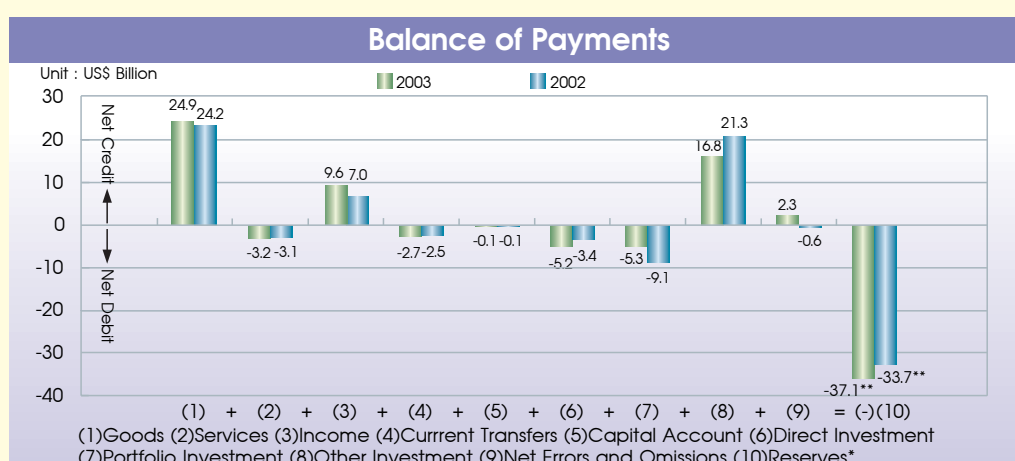
The balance of payments was characterized by a large current account surplus and a net inflow in the financial account in 2003. The current account surplus registered a record-high figure of US\$28,567 million, which was up from the previous year's US\$25,629 million and accounted for 10 percent of GDP. The capital account registered a small deficit of US\$87 million. The financial account exhibited a net inflow of US\$6,290 million. As a result, the foreign reserve assets held by the Bank increased by US\$37,092 million, the highest annual increase on record.

### Marked Increase in Current Account Surplus

The components of the current account include goods, services, income and current transfers. The current account surplus widened in 2003 mainly as a result of the increase in the trade surplus of goods and the net receipts of income.

#### (1) Goods

For the year 2003, both exports and imports on a balance of payments basis registered double-digit growth rates. The value of exports grew by 10.5 percent to US\$143,480 million, mainly driven by persistently steady growth in the global economy and the vigorous rebound



Notes:\* Excluding valuation changes in exchange rates.

\*\* The minus sign(-) indicates an increase in foreign exchange reserves.

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

## Balance of Payments

Unit: US\$ Million

	2003	2002
A: Current Account	28,567	25,629
Goods: exports f.o.b.	143,480	129,850
Goods: imports f.o.b.	-118,559	-105,657
Balance on Goods	24,921	24,193
Services: credit	23,095	21,634
Services: debit	-26,289	-24,719
Balance on Services	-3,194	-3,085
Income: credit	12,991	10,334
Income: debit	-3,436	-3,321
Balance on Income	9,555	7,013
Current transfers: credit	2,673	2,621
Current transfers: debit	-5,388	-5,113
Balance on Current transfers	-2,715	-2,492
B: Capital Account	-87	-139
Total, Groups A plus B	28,480	25,490
C: Financial Account	6,290	8,750
Direct investment abroad	-5,679	-4,866
Direct investment in Taiwan, R.O.C.	453	1,445
Portfolio investment assets	-35,620	-15,711
Portfolio investment liabilities	30,343	6,644
Other investment assets	1,272	11,990
Other investment liabilities	15,521	9,268
Total, Groups A through C	34,770	34,240
D: Net Errors And Omissions	2,322	-576
Total, Groups A through D	37,092	33,664
E: Reserves and Related Items*	-37,092	-33,664

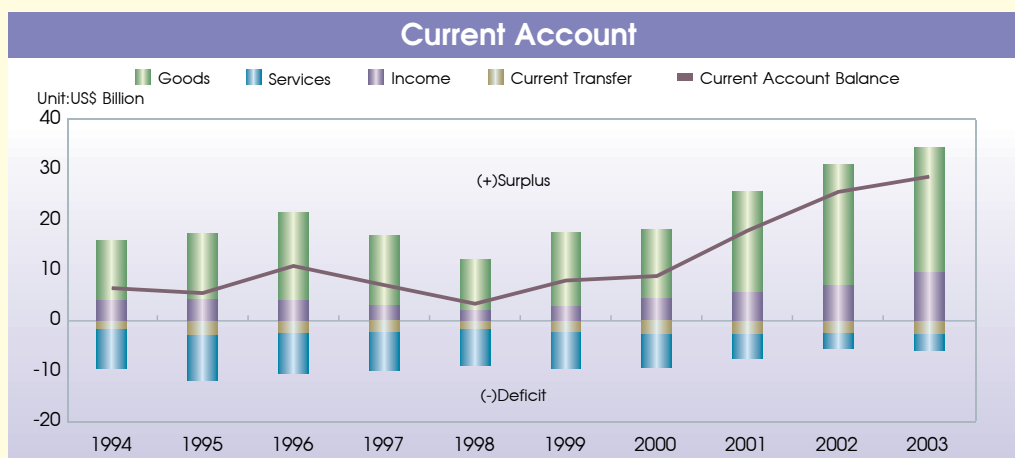
Note: \* Excluding valuation changes in exchange rate.

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

in the information technology (IT) industry worldwide. The value of imports rose by 12.2 percent to US\$118,559 million. It was primarily led by stronger derived demand arising from the expansion in exports and the gradual recovery in domestic demand, along with surging international commodity prices. The trade surplus on goods increased to US\$24,921 million for the year, an increase of 3 percent from the previous year, and posted a historical high figure.

As indicated by the Taiwan Customs' statistics, the three major trading partners for Taiwan in 2003 were Mainland China (including Hong Kong), the U.S. and Japan. Exports to these three countries accounted for 60.8 percent of total exports, while imports made up a 48.8 percent of total imports.

In terms of Taiwan's trade with Mainland China (including Hong Kong), exports totaled US \$49,799 million for the year, with a growth rate of 22.1 percent when compared with the previous year. The marked growth was attributable to Mainland China's stronger domestic demand, as well as the rising demand for raw materials, IT products and parts from Taiwanese firms operating



in Mainland China. This increase appeared significant when compared with other major export markets, and the share of exports to Mainland China (including Hong Kong) increased by 3.3 percentage points to 34.5 percent. Mainland China (including Hong Kong) remained Taiwan's largest export market in 2003.

Imports from Mainland China (including Hong Kong) rose by 31 percent, and its share of total imports rose to 10 percent in 2003. The large increase stemmed from the increased demand for Chinese electronics, information products and related parts due to the division of labor of Taiwanese industries on either side of the Taiwan Strait. The opening to import items from Mainland China after both economies joining the WTO contributed to this growth as well. The bilateral trade surplus with Mainland China (including Hong Kong) climbed to US\$37,112 million, reflecting a 19.3 percent increase. Mainland China (including Hong Kong) remained the largest source of Taiwan's trade surplus.

With respect to bilateral trade with the U.S., exports to the U.S. decreased by 3.1 percent in 2003, compared with a contraction of 3.2 percent in the previous year. The share of exports to the U.S. as a proportion of total exports further decreased to 18.0 percent in 2003. The reasons behind the continuous declines were the increased trade activity between the U.S. and NAFTA members, the competition from Mainland China's low-price products, and the continued outward relocation (mainly to Mainland China) of local industries. Imports from the U.S. contracted by 7.0 percent, and its share of total imports declined from 16.1 percent in 2002 to 13.2 percent in 2003. Because the decrease in imports was more than that in exports, the bilateral trade surplus with the U.S. rose to US\$9,127 million, representing a growth rate of 5.3 percent. The U.S. remained the second largest source of Taiwan's trade surplus.

Regarding bilateral trade with Japan, considering the mild recovery of the Japanese economy and the increased outward relocation of local industries, exports to Japan decreased by 0.5 percent in 2003, and the share of exports to Japan further fell to 8.3 percent from 9.2 percent a year earlier. Imports from Japan increased by 19.6 percent compared with the previous year, with the share of total imports rising to 25.6 percent in 2003. Japan remained Taiwan's largest source of imports. Due to the decrease in exports and the increase in imports, Taiwan's trade deficit with Japan registered a considerable increase of 35.4 percent to US \$20,714 million for the year, the second highest in history.

As far as Taiwan's trade with Europe is concerned, exports to Europe increased by 10.2 percent in 2003, with the share of total exports remaining at 14.2 percent. Imports from Europe increased by 10.9 percent in 2003, with the share of imports decreasing slightly to 12.8 percent of total imports. As the increase of exports was more than that of imports, Taiwan's trade surplus with Europe increased from US\$3,910 million in 2002 to US\$4,211 million in 2003.

In regard to bilateral trade with Southeast Asia, owing to the steady growth in the region, exports to the six major countries including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam increased by 10.0 percent. Exports to the Philippines grew by 16.7 percent, the highest among the six countries. The share of exports to these countries decreased slightly to 11.8 percent. Imports from these countries rose by 5.3 percent in 2003, with the share

### Direction of Trade in Goods by Country

Unit: %

	2003			2002		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
<b>Exports</b>						
Mainland China (including Hong Kong)	49,799	34.5	22.1	40,790	31.2	28.6
U. S. A.	25,947	18.0	-3.1	26,764	20.5	-3.2
Europe	20,454	14.2	10.2	18,554	14.2	-6.3
Southeast Asia 6*	17,076	11.8	10.0	15,525	11.9	6.4
Japan	11,922	8.3	-0.5	11,984	9.2	-6.1
Others	19,043	13.2	12.1	16,980	13.0	3.9
<b>Total</b>	<b>144,240</b>	<b>100.0</b>	<b>10.4</b>	<b>130,597</b>	<b>100.0</b>	<b>6.3</b>
<b>Imports</b>						
Japan	32,636	25.6	19.6	27,277	24.2	5.5
Southeast Asia 6*	17,436	13.7	5.3	16,554	14.7	3.8
U. S. A.	16,820	13.2	-7.0	18,094	16.1	-0.7
Europe	16,243	12.8	10.9	14,643	13.0	-2.3
Mainland China (including Hong Kong)	12,687	10.0	31.0	9,686	8.6	25.0
Others	31,437	24.7	19.6	26,274	23.3	7.4
<b>Total</b>	<b>127,258</b>	<b>100.0</b>	<b>13.1</b>	<b>112,530</b>	<b>100.0</b>	<b>4.9</b>

Note: \* including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

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

of imports declining to 13.7 percent. As a result, Taiwan's trade deficit with the six countries fell to US\$360 million in 2003 from US\$1,030 million in 2002.

## (2) **Services**

Total service receipts amounted to US\$23,095 million in 2003, an increase of US\$1,461 million as compared with the previous year. Total service payments for the year increased by US\$1,570 million to US\$26,289 million. The services account has continually been in deficit. In 2003, this deficit widened to US\$3,194 million from US\$3,085 million recorded in 2002.

Of the various components of the services account, net payments with respect to transportation increased from US\$2,217 million recorded a year earlier to US\$2,338 million in 2003, largely due to the increase in international freight expenses paid to foreign vessels, which coupled with the expansion in imports. Total travel receipts dropped sharply by US\$1,670 million to US\$2,913 million, as the SARS outbreak caused significant decreases in both the number and per capita expenditure of nonresidents visiting Taiwan. Total travel payments for the year declined by US\$476 million to US\$6,480 million, the lowest value recorded since 1992. The decrease in travel payments was mainly because SARS discouraged residents from visiting neighboring Asian countries. Net travel payments expanded to US\$3,567 million as a result of the decrease in total travel receipts outpacing that in total travel payments. The other services account turned to a surplus for the third consecutive year, with the surplus rising to US\$2,711 million in 2003. This surplus was mainly due to a huge increase in net inward remittances related to merchanting.

## (3) **Income**

Total income receipts increased by US\$2,657 million to US\$12,991 million in 2003, the highest level ever recorded. Total income payments for the year amounted to US\$3,436 million, US\$115 million more than in 2002. The surplus on the income account increased from US\$7,013 million in 2002 to a new high of US\$9,555 million in 2003. The increase was mainly due to the increase in investment income on the Bank's foreign exchange reserves, and increased inward remittances of residents' direct investment income.

## (4) **Current Transfers**

Total current transfer receipts amounted to US\$2,673 million in 2003, US\$52 million more than in the previous year. Total current transfer payments for the year expanded by US\$275

million to US\$5,388 million. Net current transfer payments increased from US\$2,492 million in 2002 to US\$2,715 million in 2003, owing to the increase in outward remittances by residents to support their overseas relatives.

### Shrinking Capital Account Deficit

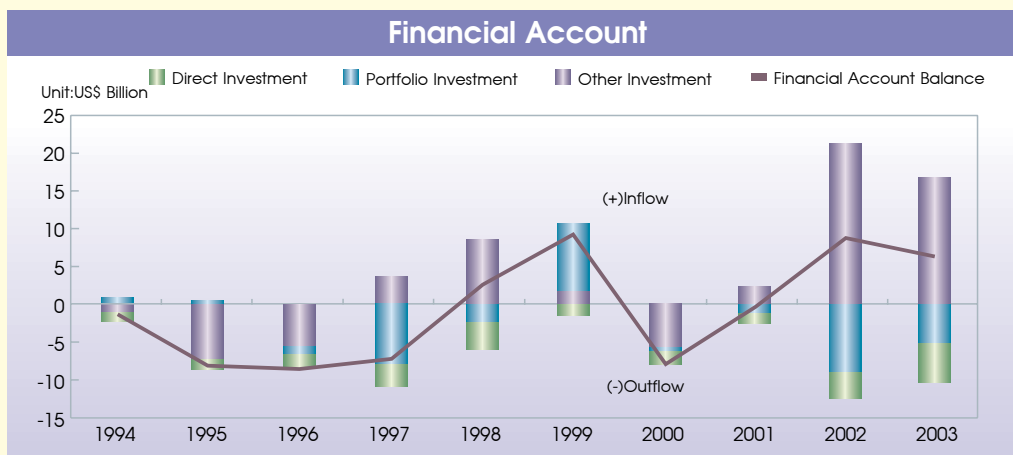
The capital account includes capital transfers (debt forgiveness, ownership transfer of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, non-financial assets. In 2003, the capital account consistently exhibited a deficit, but the gap narrowed by US\$52 million to US\$87 million, the lowest figure recorded since 1990. The decline was a result of the decreased outward remittances of migrants, as well as the shrinking acquisition of non-produced, non-financial assets.

### Net Inflow in the Financial Account

In 2003, the financial account exhibited a net inflow of US\$6,290 million. In terms of sub-categories, direct investment and portfolio investment posted a net outflow of US\$5,226 million and US\$5,277 million, respectively, while other investment posted a net inflow of US\$16,793 million.

#### (1) Direct Investment

Direct investment abroad by residents accounted for a net outflow of US\$5,679 million, US\$793 million more than in the previous year. This net outflow was the third highest on record, only surpassed by the outflows recorded in 1989 and 2000. The increased outflow indicated the corporate sectors' expanded investment abroad in view of the gradual pick up in the global economy. Direct investment in Taiwan by nonresidents registered a net inflow of US\$453



million, a sharp decline of 68.7 percent. After restrictions on foreign exchange were largely relaxed, direct investment consistently exhibited a net outflow. In 2003, the net outflow of direct investment increased from US\$3,441 million to US\$5,226 million, only second to the figure registered in 1989.

### (2) **Portfolio Investment**

Portfolio investment abroad by residents exhibited a huge net outflow of US\$35,620 million, the highest level ever recorded. Due to the low interest rate environment at home, residents increased their holdings of foreign securities through the purchases of overseas mutual funds. Furthermore, as the Ministry of Finance raised the ceiling for insurance companies on the ratio of foreign securities investment to funds, insurance companies also increased their investment in foreign securities in an aim to raise earnings. Net inflow of local portfolio investment by nonresidents increased from US\$6,644 million in 2002 to US\$30,343 million in 2003, reaching a new record high. The surging capital inflow in the domestic market can largely be attributed to the massive portfolio allocation of international funds in Asia and the expectation of better earnings outlook for locally listed companies. In addition, domestic enterprises preferred to raise funds through the international market and therefore increased the issuance of offshore convertible bonds and depositary receipts (DR) overseas. As a result, portfolio investment posted a net outflow of US\$5,277 million in 2003.

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

Other investment abroad by residents recorded a net inflow of US\$1,272 million, representing a decrease of other claims on nonresidents by residents. This inflow was mainly because of the increase of inward remittance of residents' export proceeds retained overseas following the weakening of the US dollar in the international market. Other local investments by nonresidents stood at a net inflow of US\$15,521 million, representing an increase of residents' other liabilities to nonresidents. The increase can be mainly attributed to the inflow of funds from overseas branches to local banks in expectation of the NT dollar's appreciation against the US dollar, together with the increased borrowings from abroad by the local nonbank private sector and banking sector. As a consequence, other investment exhibited a net inflow of US\$16,793 million in 2003.

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

For the year as a whole, the foreign exchange reserve assets held by the Bank increased

by US\$37,092 million to its historic high of US\$206.63 billion at year-end. Reserve assets posted sharp increases as a result of huge current account surpluses, as well as the net inflow in the financial account, which resulted from a massive inflow of funds from overseas branches to local banks. The brisk foreign portfolio investment in Taiwan, and the local enterprises' increased issuance of offshore convertible bonds and DR also contributed to the sharp build up in reserve assets.