

IV. ANNEX

1. Publication of Taiwan's International Investment Position Statistics



Introduction

In line with the trend in international financial statistics and to enhance information disclosure, the Central Bank of China (CBC) started to disseminate Taiwan's international investment position (IIP) data in accordance with the Special Data Dissemination Standard (SDDS) of the International Monetary Fund (IMF) from June 2004 onwards. Yearend IIP data will be regularly released as of the end of next June*. In this annex, compilation of Taiwan's IIP is briefly introduced, which is followed by an analysis of its current situation and economic implication.

Definition of International Investment Position

The IIP is a new statistical statement introduced in the fifth edition of the *Balance of Payments Manual (BPM5)* of the IMF. IIP statistics show a country's stock of external assets and liabilities at the end of a reference period. The IIP and Balance of Payments (BOP) together constitute the set of international accounts for an economy. While the BOP financial account measures transactions in external assets and liabilities that have taken place during the reference period, IIP measures the stock of such assets and liabilities at the end of the period. IIP statistics reflect not only financial transactions, but also valuation changes and other adjustments that occurred during the specific period and affected the levels of external assets and liabilities.

Compilation of Taiwan's International Investment Position

The compilation of Taiwan's IIP statistics is in accordance with the guidelines contained in

* The data for Taiwan's IIP is available from the CBC website at www.cbc.gov.tw or the *Balance of Payments Quarterly, Taiwan District, the Republic of China*.

BPM5. The CBC uses existing stock data and revalues them at current market prices. If such stock data series are not available, the CBC will derive the corresponding stock value from flow data or other indirect data sources. Currently, the majority of data derived from indirect estimation are the stocks of external assets of the private non-bank sector. With respect to valuation methods, stock data valued at market prices are mostly available for assets and liabilities of portfolio investment. The aggregate stock data for direct investment abroad are mainly net worth estimates as most of the entities invested are not exchange-listed companies. Inward direct investment by non-residents is measured either at current market prices or net-worth, depending on the entities invested. The value of the stock of other investment is usually measured at book values.

Current State of Taiwan's International Investment Position

Due to a longstanding current account surplus, Taiwan's international investment registered net asset positions from 2000 onwards. Taiwan's net asset position reached US\$308.5 billion at

Taiwan's International Investment Position at Yearend

Unit: US\$ Billion

	2000	2001	2002	2003
Assets				
Direct investment abroad	66.7	70.8	76.9	84.1
Portfolio investment	34.4	41.8	55.8	87.7
Equity securities	22.3	27.2	33.5	50.7
Debt securities	12.1	14.5	22.3	37.0
Financial derivatives	0.0	0.1	0.2	0.2
Other investment	92.7	100.5	95.6	100.1
Trade credits	2.0	1.6	1.8	1.7
Loans	26.0	32.7	30.3	32.2
Currency and deposits	35.4	38.7	35.0	36.7
Other assets	29.3	27.6	28.5	29.4
Reserve assets	111.4	126.6	166.0	211.1
Total assets	305.1	339.7	394.5	483.2
Liabilities				
Direct investment in Taiwan, R.O.C	17.6	38.0	28.1	37.1
Portfolio investment	33.4	44.1	38.4	82.9
Equity securities	29.1	39.7	32.2	72.6
Debt securities	4.3	4.4	6.1	10.2
Financial derivatives	0.0	0.0	0.1	0.2
Other investment	32.0	35.4	43.2	54.6
Trade credits	2.1	1.7	2.1	2.5
Loans	8.4	9.5	12.0	12.3
Currency and deposits	19.6	22.8	27.2	37.4
Other liabilities	1.9	1.4	1.8	2.3
Total liabilities	83.0	117.6	109.7	174.7
Net International Investment Position	222.1	222.1	284.8	308.5

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

The World's Top 10 Countries Ranked by International Investment Position at Yearend 2003

Unit: US\$ Billion

Rank	Net Asset Position		Assets		Liabilities	
	Countries	Value	Countries	Value	Countries	Value
1	Japan	1,613.6	United States	7,864.0	United States	10,515.0
2	Switzerland	469.0	United Kingdom	6,335.3	United Kingdom	6,428.8
3	Hong Kong	397.7	Germany	3,963.6	Germany	3,794.1
4	Taiwan	308.5	Japan	3,599.8	France	3,380.8
5	Germany	169.6	France	3,513.0	Japan	1,986.2
6	France	132.2	Netherlands	1,933.5	Netherlands	1,978.6
7	Belgium	127.5	Switzerland	1,760.1	Italy	1,643.7
8	Singapore	76.0	Italy	1,559.9	Spain	1,360.9
9	Venezuela	10.3	Ireland	1,282.7	Ireland	1,314.3
10	Botswana	5.6	Belgium	1,234.1	Switzerland	1,291.1
⋮	⋮		⋮		⋮	
			Taiwan(14th)	483.2	Taiwan(25th)	174.7

Sources : 1. Balance of Payments, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.

2. International Financial Statistics, January 2005, IMF.

the end of 2003, the fourth highest figure in the world, after Japan, Switzerland, and Hong Kong.

Total external assets continued to rise since 2000 and amounted to US\$483.2 billion at yearend 2003, ranking 14th largest in the world. The CBC's reserve assets commanded the lion's share, accounting for 44 percent of the total value at yearend 2003. The increase in Taiwan's external assets was mainly driven by the expansion of the CBC's foreign reserve assets and residents' portfolio investment abroad. Portfolio investment abroad by residents continued its upward trend mainly due to the increased exposure to global investment tools and increased foreign security holdings through the purchases of overseas mutual funds. Insurance companies also expanded their investment in foreign securities with the aim of enhancing earnings.

Taiwan's total external liabilities amounted to US\$174.7 billion at yearend 2003, the 25th largest in the world. Portfolio investment by non-residents claimed the lion's share, accounting for 47 percent of the total value at yearend 2003. The increase in total external liabilities was primarily the result of an increase in inward portfolio investment, which was attributable to inflows of foreign capital, an increase in issues of offshore corporate bonds and depositary receipts by residents, as well as a considerable rise in local equity prices.

The Economic Implication of Taiwan's International Investment Position Statistics

1. The Rise of the Financial Openness Ratio in Taiwan as a Result of a Higher Degree of Financial Glob-

alization

Financial openness can be captured by the ratio of the stock of external assets and liabilities of direct investment and portfolio investment to GDP. The financial openness ratio for Taiwan has been rising over the past few years, from 0.49 at yearend 2000 to 1.02 at the end of 2003, reflecting the effects of financial liberalization and globalization in recent years.

2. Low Risk of Financial Instability in View of the High Ratio of Foreign Direct Investment Stock to External Debt

Direct investment is the least volatile among all kinds of capital flows. The high ratio of foreign direct investment to external debt implies a lower risk of financial instability in view of the reliable source of external finance. The ratio of foreign direct investment stock to external debt was 0.59 at yearend 2003, the 17th highest ranking compared with the IMF's 58 SDDS subscribing economies.

3. Low Liquidity Risk as Seen in the High Ratio of Reserve Assets to Short-term External Debt

Adequate reserve assets held by monetary authorities can maintain sufficient liquidity and provide confidence in authorities' commitment to support the value of the domestic currency. The higher the ratio to short-term external debt of reserve assets would translate into a lower probability of financial crisis and lessened impact should such a crisis occur. The ratio of reserve assets to short-term external debt for Taiwan stood at 4.4 at yearend 2003, higher than the average of 3.4 of developing countries.

4. Risk Assessment of the Structure of Assets and Liabilities

Taiwan has been standing as a net creditor. In such a context, risk primarily associates with a general fall in foreign asset prices or a depreciation of foreign currencies, which would lead to a decrease in the local dollar value of foreign currency denominated assets. Equity investment by the private non-bank sector was relatively larger than those of monetary authorities, government, or banks. As a result, external asset and liability positions of the private sector are more vulnerable to price revaluation driven by equity price movements, and in turn, changes of these positions will significantly affect investment and consumption decisions.

Conclusion

The rapid increase in the mobility and volume of cross border capital flows in Taiwan highlights the growing importance of regular and timely disclosure of IIP statistics for risk assessment practice and investment policy. Therefore, the regular publication of Taiwan's IIP statistics helps provide significant insights in sound economic policy-making, credit rating analysis, as well as corporate investment strategy.