

### 3. BALANCE OF PAYMENTS

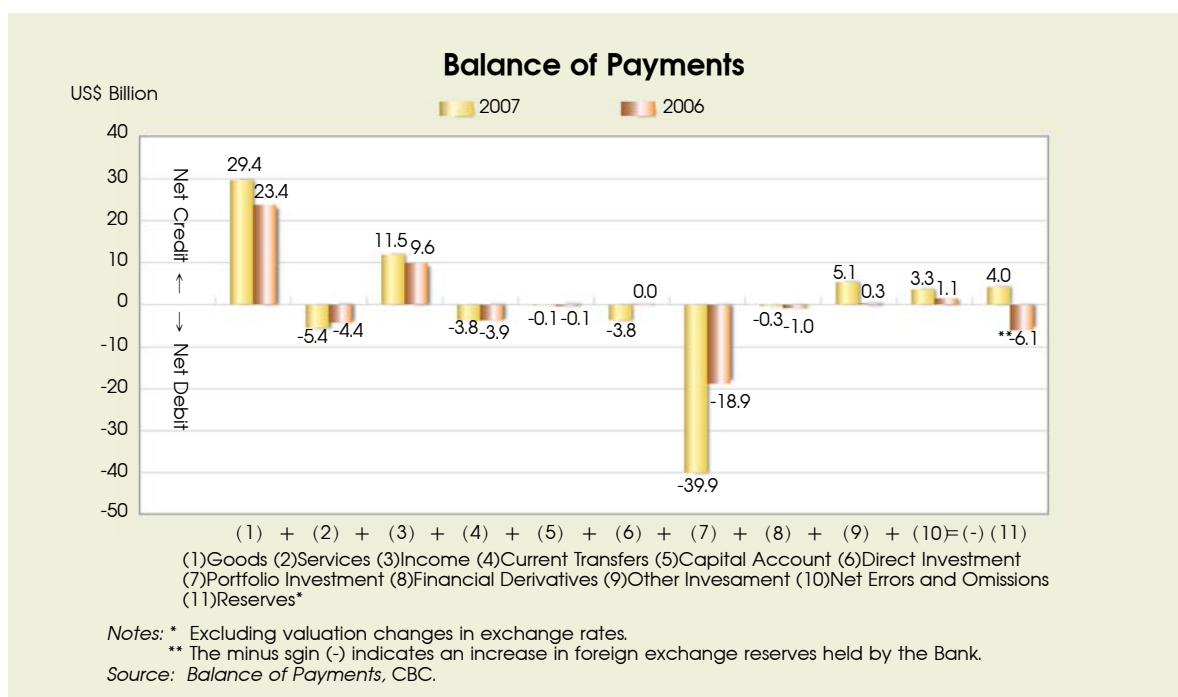
The balance of payments was characterized by a large current account surplus and a net outflow in the financial account in 2007. The current account surplus registered a record high of US\$31,701 million, which was up from the previous year's US\$24,661 million and accounted for 8.0 percent of nominal GNP. The capital account registered a relatively small deficit of US\$96 million. The financial account exhibited a net outflow of US\$38,926 million, which also was the highest on record. The overall balance showed a deficit of US\$4,020 million, reflecting a decrease in the Bank's reserve assets. The overall deficit accounted for 12.7 percent of the current account surplus. In light of the abundant foreign exchange reserves, the deficit in fact could help ease domestic excess savings.

#### Marked Increase in Current Account Surplus

The current account consists of four major items, which are goods, services, income and current transfers. The current account surplus increased in 2007 mainly as a result of the widened surplus in both goods and income and the decline in the deficit of current transfers.

#### (1) Goods

For the year 2007, the value of exports and imports reached historic highs. On a balance of payments basis, the value of exports grew by 10.2 percent to US\$246,597 million, mainly



## Balance of Payments

Unit: US\$ Million

	2007	2006
A. Current Account	31,701	24,661
Goods: exports f.o.b.	246,597	223,789
Goods: imports f.o.b.	-217,160	-200,385
Balance on Goods	29,437	23,404
Services: credit	30,642	29,272
Services: debit	-36,068	-33,661
Balance on Services	-5,426	-4,389
Income: credit	24,861	19,338
Income: debit	-13,370	-9,757
Balance on Income	11,491	9,581
Current transfers: credit	4,559	3,837
Current transfers: debit	-8,360	-7,772
Balance on Current Transfers	-3,801	-3,935
B. Capital Account	-96	-118
Total, Groups A plus B	31,605	24,543
C. Financial Account	-38,926	-19,595
Direct investment abroad	-11,058	-7,399
Direct investment in R. O. C. (Taiwan)	7,272	7,424
Portfolio investment assets	-44,946	-40,754
Portfolio investment liabilities	4,999	21,814
Financial derivatives assets	3,788	1,930
Financial derivatives liabilities	-4,078	-2,895
Other investment assets	-7,435	-1,266
Other investment liabilities	12,532	1,551
Total, Groups A through C	-7,321	4,948
D. Net Errors and Omissions	3,301	1,138
Total, Groups A through D	-4,020	6,086
E. Reserves and Related Items*	4,020	-6,086

Note: \* Excluding valuation changes in exchange rates.  
Source: Balance of Payments, CBC.

driven by steady growth in the global economy. The value of imports rose by 8.4 percent to US\$217,160 million. It was primarily led by surging international energy, raw material and commodity prices, as well as stronger derived demand arising from the expansion in exports. The trade surplus on goods reached US\$29,437 million for the year, an increase of 25.8 percent from the previous year and the highest figure on record.

As indicated by the Customs' statistics, the top three trading partners for Taiwan in 2007 were China including Hong Kong (hereafter referred to as China), the US and Japan. Exports to these countries accounted for 60.2 percent of total exports, while imports from these three countries made up 46.6 percent of total imports.

In terms of Taiwan's trade with China, exports totaled US\$100,444 million for the year, representing a growth of 12.6 percent compared with the previous year. The marked growth

## Direction of Trade in Goods by Country

Unit: %

	2007			2006		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
<b>Exports</b>						
China (including Hong Kong)	100,444	40.7	12.6	89,190	39.8	14.8
U. S. A.	32,074	13.0	-0.9	32,361	14.4	11.2
Europe	28,687	11.6	9.7	26,147	11.7	10.6
Southeast Asia 6*	35,783	14.5	16.7	30,651	13.7	13.8
Japan	15,936	6.5	-2.2	16,300	7.3	7.9
Rest of the World	33,799	13.7	15.1	29,369	13.1	13.2
<b>Total</b>	<b>246,723</b>	<b>100.0</b>	<b>10.1</b>	<b>224,018</b>	<b>100.0</b>	<b>12.9</b>
<b>Imports</b>						
Japan	45,944	20.9	-0.7	46,284	22.8	0.5
U. S. A.	26,518	12.1	17.0	22,665	11.2	7.1
Europe	23,664	10.8	9.7	21,566	10.6	-1.6
Southeast Asia 6*	23,692	10.8	1.7	23,304	11.5	10.4
China (including Hong Kong)	29,844	13.6	11.9	26,664	13.2	20.1
Rest of the World	69,685	31.8	12.0	62,215	30.7	24.0
<b>Total</b>	<b>219,347</b>	<b>100.0</b>	<b>8.2</b>	<b>202,698</b>	<b>100.0</b>	<b>11.0</b>

Note: \* Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.  
Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

was attributable to China's persistently strong economic growth, as well as the rising demand for IT products and plastic products and parts from Taiwanese firms operating there. The share of exports to China increased by 0.9 percentage points to 40.7 percent. China remained Taiwan's largest export market in 2007.

Imports from China totaled US\$29,844 millions, up by 11.9 percent, and its share in total imports rose to 13.6 percent in 2007, making China the second largest source of imports. The increase stemmed from the surging demand for Chinese machinery products and related parts due to the division of labor among Taiwanese industries across the Taiwan Strait. The bilateral trade surplus with China climbed to US\$70,600 million, reflecting a 12.9 percent increase. China remained the largest source of Taiwan's trade surplus.

With respect to bilateral trade with the US, exports to the US slightly decreased by 0.9 percent in 2007. The share of exports to the US in total exports had decreased since 1998, and dropped further to 13.0 percent in 2007. The continuous decline was mainly due to the competition from China's products and the resumed outward relocation (mainly to China) of local industries. Imports from the US increased by 17.0 percent and its share of total imports rose from 11.2 percent in 2006 to 12.1 percent in 2007. Because imports grew relatively faster, the bilateral trade surplus with the US decreased to US\$5,556 million, representing a cut of 42.7 percent.

Regarding bilateral trade with Japan, exports to Japan decreased by 2.2 percent in 2007, and its share in total exports declined to 6.5 percent. Imports from Japan slightly decreased by 0.7 percent compared with the previous year, with the share in total imports falling to 20.9 percent in 2007. Japan remained Taiwan's largest source of imports. The trade deficit with Japan slightly increased to US\$30,007 million for the year.

Exports to Europe increased by 9.7 percent in 2007, with the share in total exports falling to 11.6 percent. Imports from Europe increased by 9.7 percent in 2007, with the share in total imports amounting to 10.8 percent. The trade surplus with Europe increased from US\$4,581 million in 2006 to US\$5,023 million in 2007.

Owing to steady economic growth in Southeast Asia, exports to the six countries in the region, including Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, increased by 16.7 percent. In particular, exports to Vietnam significantly grew by 40.9 percent, making Vietnam the second largest source of Taiwan's trade surplus for the year. The share of exports to these countries in total exports rose to 14.5 percent. Imports from these countries rose by 1.7 percent in 2007, with the share in total imports declining to 10.8 percent. The trade surplus with the six countries increased to US\$12,091 million in 2007 from US\$7,347 million in 2006. Besides, bilateral trade with India expanded. The export and import growth rates reached 59.2 percent and 104.2 percent, respectively.

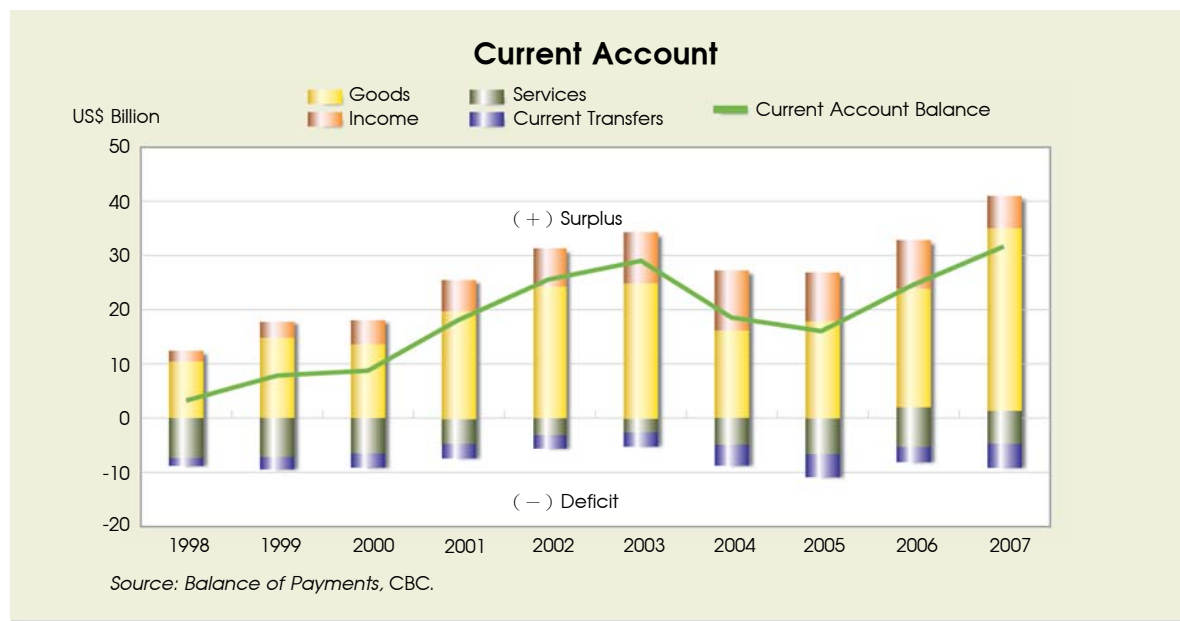
## **(2) Services**

In 2007, both service receipts and payments registered their highest amounts in history. Service receipts increased by US\$1,370 million to US\$30,642 million, and service payments rose by US\$2,407 million to US\$36,068 million. The service deficit widened to US\$5,426 million in 2007 from the US\$4,389 million in 2006.

Of the various components of the services account, net payments with respect to transportation increased from US\$2,771 million recorded a year earlier to US\$3,393 million in 2007, largely due to the increase in import freight expenses paid to foreign carriers. Travel receipts merely increased by US\$1 million to US\$5,137 million. Travel payments for the year increased by US\$324 million to US\$9,070 million, due to an increase in overseas visits by residents. Net travel payments increased to US\$3,933 million. The surplus in net other services decreased slightly from US\$1,992 million in 2006 to US\$1,900 million in 2007, mainly resulting from the increases in brokerage, professional and technical services payments.

## **(3) Income**

Owing to the cross-border investment boom, both income receipts and payments registered



their highest levels in 2007. Income receipts increased to US\$24,861 million, which was attributable to the increases in residents' income from direct investment and in interest earnings from residents' foreign exchange assets. Income payments for the year amounted to US\$13,370 million, resulting from the increase in non-residents' direct and portfolio investment income. The surplus on the income account increased from US\$9,581 million in 2006 to US\$11,491 million in 2007.

#### (4) Current Transfers

Current transfer receipts amounted to US\$4,559 million, while current transfer payments increased to US\$8,360 million in 2007. Both reached historic highs, on account of the increase in remittances to support overseas relatives. Net current transfer payments decreased from US\$3,935 million in 2006 to US\$3,801 million in 2007.

#### Shrinking Capital Account Deficit

The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers), and the acquisition and disposal of non-produced, non-financial assets. In 2007, the capital account consistently exhibited a deficit, but the gap narrowed by US\$22 million to US\$96 million, as a result of the decreased acquisitions of non-produced, non-financial assets.

#### Net Outflow in the Financial Account

In 2007, the financial account presented a net outflow of US\$38,926 million. In terms of

sub-categories, other investment posted a net inflow of US\$5,097 million, while direct investment, portfolio investment and financial derivatives posted net outflows of US\$3,786 million, US\$39,947 million and US\$290 million, respectively.

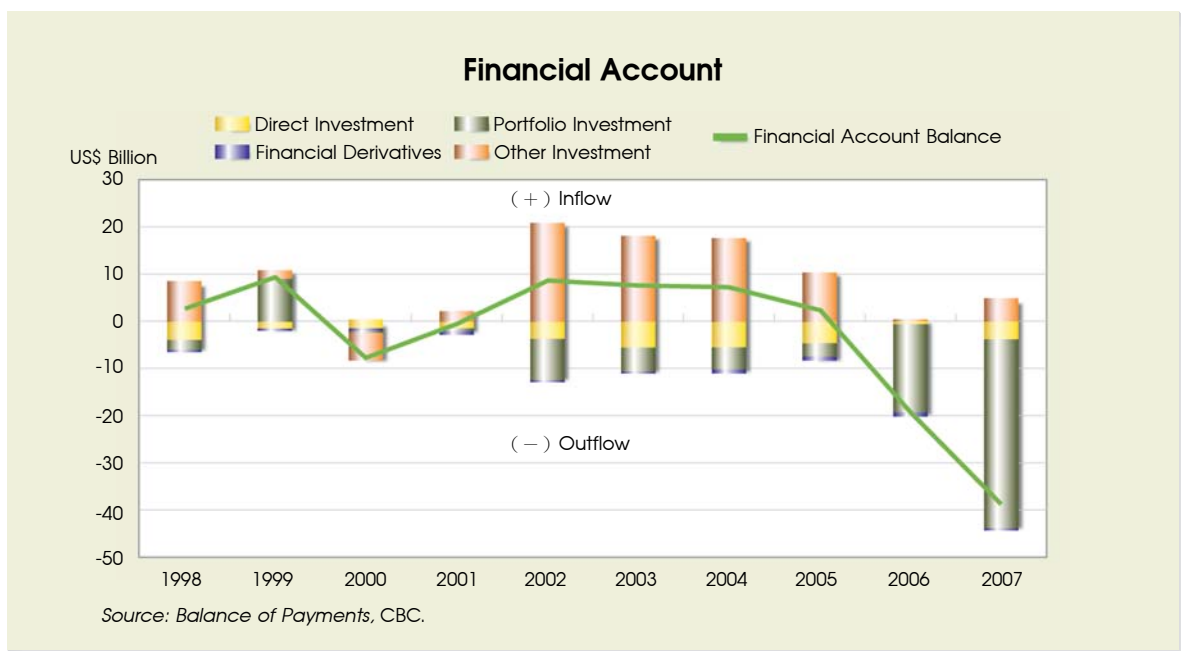
### (1) Direct Investment

Direct investment abroad by residents showed a net outflow of US\$11,058 million, the highest in history and US\$3,659 million more than in the previous year. Main targets invested included the financial industry and the electronic parts and components manufacturing industry. Moreover, China remained the lion's share in Taiwan's direct investment abroad. Direct investment in Taiwan by nonresidents registered a net inflow of US\$7,272 million. Accordingly, direct investment registered a net outflow of US\$3,786 million in 2007, compared with a net inflow of US\$25 million in 2006.

### (2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net outflow of US\$44,946 million, the highest level ever recorded. It indicated an increase in residents' investment in foreign mutual funds (Box). Net inflows of local portfolio investment by nonresidents slid from US\$21,814 million in 2006 to US\$4,999 million in 2007, mainly because foreign investors sold their holdings in the local stock market to meet liquidity demands arising from the impact of the US subprime loan crisis. Portfolio investment posted a huge net outflow of US\$39,947 million in 2007.

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### **(3) Financial Derivatives**

Financial derivatives assets recorded a net inflow of US\$3,788 million, mainly due to gains from financial derivatives deals by private sectors and OBUs. Financial derivatives liabilities registered a net outflow of US\$4,078 million, reflecting the gains from financial derivatives deals by nonresidents. As a result, financial derivatives posted a net outflow of US\$290 million in 2007.

### **(4) Other Investment**

Other investment abroad by residents recorded a net outflow of US\$7,435 million, mainly because of the increase in loans extended to foreign banks. Other local investment by nonresidents showed a net inflow of US\$12,532 million, primarily on account of the foreign funds introduced into the domestic market by the banking sector. As a consequence, the net inflow of other investment substantially increased to US\$5,097 million in 2007, compared with US\$285 million in 2006.

### **Decrease in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the Bank decreased by US\$4,020 million. Reserve assets decreased as the current account surplus was less than the net outflow in the financial account.

## Box: The Overview and Impact of Investment in Foreign Mutual Funds

In the past two years, portfolio investment abroad by residents surged. Several factors that might cause the surge included: lower domestic interest rates, a weak NT dollar, relatively dim performance of Taiwan's stock market, the master agent requirements for foreign mutual funds sold in Taiwan (effective from 2006), the taxation on residents' overseas income (scheduled for 2009), continued relaxation of capital controls in Taiwan, and abolition of inheritance tax in Hong Kong. The sharp increase in investment in foreign mutual funds in particular was a reflection that these funds attracted residents for their professional management, wider scope of investment, risk diversification, higher liquidity, and tax exemption.

At the end of 2007, foreign mutual funds held by residents grew by 53.7 percent to NT\$2,102 billion. Investments through banks' non-discretionary money trusts accounted for the lion's share, reaching 83.5 percent. Broken down by type of fund, investors preferred holding equity funds and fixed income funds, which posted shares of 65.6 percent and 29.4 percent, respectively. By investment area, global funds and regional funds held by residents marked 49.1 percent and 32.7 percent, respectively, attributable to their better risk diversification. By currency, funds denominated in the US dollar and the euro exhibited shares of 79.9 percent and 16.6 percent, respectively.

Due to the continued foreign trade surplus and slower growth of domestic investment, Taiwan has accumulated massive excess savings over the past 10 years. Residents' investment in foreign mutual funds can ease the domestic excessive liquidity resulting from the current account surpluses and net inflows of foreign capital over the past years. Currently, with the Bank's reserve assets still abundant, investment abroad by private sectors helps keep the overall balance in equilibrium and stabilize domestic financial markets and NT dollar exchange rates.

### Foreign Mutual Funds Held by Residents

(End of 2007)

Classification	Item		Amount (NT\$ Billion)	Share (%)	
Total			2,102	100.0	
Type of Beneficiary	Individual Beneficiaries		26	1.2	
	Institutional Beneficiaries	Non-Omnibus Accounts	284	13.5	
		Omnibus Accounts	Non-Discretionary Money Trust	1,754	83.5
			Others	38	1.8
Fund Type	Equity Fund		1,379	65.6	
	Fixed Income Fund		619	29.4	
	Balance Fund		75	3.6	
	Others		29	1.4	
Investment Area	Global		1,031	49.1	
	Single Country		383	18.2	
	Regional		688	32.7	
Currency	USD		1,680	79.9	
	EUR		349	16.6	
	Others		73	3.5	

Source: Securities Investment Trust & Consulting Association of the R.O.C.