Taiwan Economic and Trade Development
(For information purposes only)

A. Economic growth

During the first two quarters of 2012, Taiwan’s economic growth rates reflected the sluggish global economic growth and the resulting weak external demand. The economic growth rate in the first quarter of 2012 stood at 0.5 %, turning negative during the second quarter (-0.1 %). However, as external demand gradually stabilized in the second half of the year, the economy picked up steadily with growth rates of 0.7 % in the third quarter and 3.9 in the fourth quarter. For the total of 2012, the GDP growth rate was 1.3 %. In line with the global economic slowdown, exports decreased by 2.2 %, while imports shrank by 3.8 %. Despite the adverse impact of the lackluster global economy, labour market conditions continued to improve, leading to an unemployment rate of 4.2 %. Consumer prices increased by 1.9 % due to climbing energy and food prices. For 2013, the DGBAS (Directorate-General of Budget, Accounting and Statistics) forecasts an economic growth of 2.4 % for the whole year.

B. Money and Finance

1. The TAIEX (Taiwan Stock Exchange Capitalization Weighted Stock Index) reached a yearly high of 8,144 on March 2, 2012, but fell afterwards to a yearly low of 6,895 on June 4, 2012, due to the instability on the international financial market, combined with fuel and electricity price hikes, and a debate over a capital gains tax on income from securities. After June, the TAIEX picked up again and closed the year at 7,700, an increase of 8.9 percent as compared to the end of 2011.

2. The growth rate of loans and investments of major financial institutions reflected a weaker demand for funds during the first three quarters of 2012, sliding from 5.2 % to 4.5 %, but restored in the last quarter. At the end of 2012, the annual growth rate of loans and investments stood at 5.6 %. However, due to the limited exposure to European debt, the asset quality of domestic financial institutions remained sound in 2012, with the overall non-performing loan ratio decreasing from 0.43 % to 0.40 % at the end of 2012. The financial performance of domestic banks improved, with an average return on assets and return on equity that was both higher than those of the previous year.

3. The NT dollar fluctuated against the US dollar with modest volatility during 2012. During the first months of 2012, the NT dollar appreciated moderately against the US dollar, standing at 29.5 in April. From May to July, the NT dollar/US dollar exchange rate went down to 30.0, mainly as a result of the deteriorating situation of the global economy and the international stock market, prompting international investors to sell off in Taiwan’s stock market. From
September on, international capital flowed into Asia’s emergent economies and the NT dollar appreciated again against the US dollar, standing at 29.1 at the end of the year. The average exchange rate of the NT dollar against the US dollar in 2012 stood at 29.6.

4. Central government revenue decreased by 0.3% in 2012, amounting to NT$1,667.1 billion, mainly due to losses in some public enterprises and the economic slowdown. Central government expenditure grew by 8.6% to reach NT$1,883.0 billion, as a result of a rise in social welfare expenditure and economic development projects. The decrease of central government revenue in combination with the increase in expenditure resulted in a deficit of NT$215.9 billion.

5. In 2011, discount rates were raised twice to 1.750 in April 2011 and 1.875 percent in July 2011. For the rest of 2011 and through the year 2012, the Central Bank decided to keep its policy rates unchanged in view of the greater uncertainty in the global economy and the increasing pressures of domestic inflation. As a result, most banks held their posted interest rates on deposits and loans steady for the year.

6. In December 2012, Taiwan’s foreign exchange reserves amounted to US$403.1 billion, an increase of US$17.6 billion in comparison with December 2011, securing its position as the world sixth largest foreign exchange holder, after China, Japan, Saudi Arabia, Russia and Switzerland. According to the Central Bank, the increase was mainly attributable to a higher return on investment of foreign exchange reserves and the appreciation of the EUR and other currencies against the dollar. In July 2013, Taiwan’s foreign exchange reserves amounted to US$406.6 billion.
C. Foreign Trade

In 2012, total trade amounted to US$ 571.6 billion. Exports in 2012 stood at US$ 301.1 billion, a decrease of 2.2 % in comparison with 2011, whereas imports stood at US$ 270.4 billion, a 3.8 % decrease in comparison with 2011. From January to May 2013, exports increased by 1.1 %, while imports recorded a modest decrease of 0.9 %.

Looking into more detail over the whole year of 2012, both exports and imports recorded the largest decreases in the first half of 2012, by 4.6 % and 5.9 % respectively, in comparison with the first half of 2011. According to the CEPD (Council for Economic Planning and Development), the contraction of exports was mainly the result of the slowdown of the world economy, in conjunction with weakened competitiveness in some domestic industries. In the second half of 2012, trade growth started to resume again, resulting in a 0.07 % export growth during this period. Import growth however decreased slightly by 1.7 % during the second half of 2012.

Mainland China remained Taiwan's most important export market in 2012 with a share of 26.7 % of Taiwan's total exports. On the 2nd place stood Hong Kong with a share of 12.5 %, followed by the US with a share of 10.9 % of total exports. Exports to the three main export partners decreased in 2012: -3.8 % for exports to China, -5.3 % for exports to Hong Kong, and a 9.3 % decrease for exports to the US. Exports to the ASEAN10 countries however, did not follow this negative trend and recorded even an increase of 9.7 % in 2012. Also in export share, ASEAN10 countries claim a high position in the rankings of Taiwan's export partners, with exports from Taiwan to ASEAN10 equaling US$ 56.5 billion in 2012, accounting for 18.8 % of total exports. The EU27 is ranked after the US with an export share of 8.6 % of exports in 2012. Main export items in 2012 were: electronics (36.2 %), machinery (9.9 %), optical, photographic, precision and medical instruments (7.6 %), mineral fuels (7.1 %) and plastics (6.9 %).

Japan, mainland China and the US were the most important import partners of Taiwan in 2012, with shares of 17.5 %, 15.1 % and 8.7 % respectively. Imports from these top three import partners recorded decreases in 2012: -8.8 % (Japan), -6.1 (China), and -8.3 % (US). They were followed by ASEAN10 and the EU27, which commanded a share of 11.6 % and 8.3 % respectively. Main import items in 2012 were: mineral fuels (25.8 %), electronics (20.2 %), and machinery (9.8 %).

Because of the gap between exports (US$ 301.1 billion) and imports (US$ 270.4 billion), Taiwan enjoyed a trade surplus of US$ 30.7 billion. Except for Japan, Taiwan has a trade surplus with all its major trading partners. Due to the rapid increase of exports versus the relative small decrease of imports in 2012, the trade surplus with ASEAN10 increased by 33.4
D. Industry and Commerce

The economic slowdown was also reflected in the growth figures of Taiwan’s production. Over the whole of 2012, the industrial production decreased by 0.2 %, while manufacturing output went down by 0.3 %. Looking more closely at the manufacturing production indexes, it appears that some sectors, such as the information and electronic industry, and the chemical industry, recorded modest increases in production (1.2 % and 1.6 % respectively), while production in the metal and machinery industry decreased by 4.0 %. In the first half of 2013, industrial production recorded a modest increase of 0.2 %.

E. Labour

In the course of 2012, labour market conditions continued to improve: in April 2012, the unemployment rate stood at 4.1 %, the lowest since August 2008. For 2012 as a whole, the unemployment rate was 4.2 %, 0.15 percentage points lower than the year before and the lowest since 2009. From January to June 2013, the average unemployment rate was 4.1 %.

Employment in the agricultural sector, which accounts for 5.0 % of total employment, rose by 0.3 % in 2012, whereas employment in the industrial sector (with a share of 36.2 % of total employment) increased by 1.2 %. Within the industrial sector, mostly the manufacturing sector accounted for the increase in jobs. Employment in the services sector (accounting for 58.7 % of total employment) grew by 1.6 %.

The labor force participation rate stood at 58.3 % in 2012. Those with junior college degrees or vocational training apparently had a better chance at finding work, reflected in the respective labour force participation rates of 75.5 % and 68.0 %. The average salary in the industry and services sector stood at 45.888 NTD (USD 1549) in 2012.

F. Consumption

Despite the lackluster global economic growth and feeble external demand, private consumption grew by 1.4 % in 2012, contributing 0.7 percentage points to GDP growth. Consumption confidence kept growing throughout the year, recording growth rates of 1.9 % and 1.6 % in the first two quarters, slowing down a bit in the third quarter (0.9 %) and picking up in the last quarter with a growth of 1.4 %. Government consumption grew by 0.4 % over the whole of the year, contributing 0.05 of a percentage point to GDP growth. For 2013, DGBAS (Directorate-general for Budget, Accounting and Statistics) forecasts a growth rate of 1.4 % for private consumption and -0.07 % for government consumption. The gross fixed
capital formation (i.e. the net investment in fixed assets in private and public enterprises), followed the economic fluctuations in 2012. In the first three quarters, the gross fixed capital formation decreased by -10.2 %, -7.6 and -0.9 % respectively, whereas the fourth quarter of 2012 and the first quarter of 2013 witnessed an increase in net investment in both private and public enterprises.

G. Investment

1. With a share of 61.2 % of all outward investment in 2012, mainland China remains the main destination for Taiwan's outward investment. According to the statistics of the Mainland Affairs Council, the accumulated investments (from 1979 till Dec. 2012) of Taiwan accounted for 4.5 % of all investments into mainland China, which makes Taiwan the sixth most important investment source, after Hong Kong & Macau, the British Virgin Islands, Japan, the USA and Singapore. The share of yearly Taiwanese investment into mainland China has in general been on the decline: whereas Taiwan's investment represented 8.3 % of the total foreign direct investment in mainland China in 1996, this had decreased to 2.5 % in 2012. However, in recent years it has been noticed that offshore financial centres such as the Virgin Islands have attracted a lot of investments from Taiwan and are figuring prominently among the top investors in mainland China. There is a possibility that Taiwanese companies are investing in mainland China through the Caribbean Islands, which would make the actual investment amount of Taiwan into mainland China much higher.

The regions in mainland China which are most popular among Taiwanese businesses have been the Pearl River Delta (Guangdong province) and the Yangtze River delta or the Shanghai-Nanjing-Hangzhou triangle (Jiangsu, Zhejiang and Fujian provinces and Shanghai). These provinces absorbed more than 71.3 % of all Taiwanese investments in mainland China in 2012. The sectors attracting the greatest amount of Taiwanese investment have been computers, electronic and optical products manufacturing and electrical equipment manufacturing. Within the framework of the Economic Cooperation Framework Agreement (ECFA) signed on 29 June 2010, which entered into effect on 1 January 2011, mainland China opened its markets in 11 service sectors such as banking, securities, insurance, hospitals, film and accounting. On August 9 2012, the Cross-Strait Bilateral Investment Protection and Promotion Agreement was signed, ensuring better protection for Taiwanese investors in mainland China. On June 21, 2013, Taiwan and mainland China signed a cross-strait trade in services agreement, resulting in mainland China opening up 80 service sectors, allowing sole investment or raising the permitted shareholder ratio for Taiwanese businesses, and Taiwan opening 64 sectors to Chinese investment.

2. Taiwan's outward investment apart from mainland China stood at US$ 8.0 billion at the end of 2012, twice as much as outward investment in 2011 (US$ 3.6 billion). Mostly investments
into Asian countries were responsible for this surge in outward investment: US$ 7.1 billion out of US$ 8.0 billion were invested into Asian countries, mostly Singapore (US$ 4.4 billion), Japan (US$ 1.0 billion) and Vietnam (US$ 943 million). In contrast, investment into the US, traditionally a popular investment target, stood at a 10-year low at US$ 144 million, accounting only for 0.7 % of total outward investment.

### Taiwan outward investment in 2011 and 2012 –US$1000

<table>
<thead>
<tr>
<th></th>
<th>Amount 2012</th>
<th>2012 (% of total amount)</th>
<th>Amount 2011</th>
<th>2011 (% of total amount)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL (including P.R. China)</td>
<td>20,890,780</td>
<td>38.77</td>
<td>18,073,452</td>
<td>20.45</td>
</tr>
<tr>
<td>TOTAL (P.R. China not included)</td>
<td>8,098,641</td>
<td>34.23</td>
<td>3,696,827</td>
<td>9.54</td>
</tr>
<tr>
<td>China</td>
<td>12,792,077</td>
<td>61.23</td>
<td>14,376,624</td>
<td>79.55</td>
</tr>
<tr>
<td>Asia</td>
<td>7,151,518</td>
<td>34.23</td>
<td>1,723,918</td>
<td>9.54</td>
</tr>
<tr>
<td>Singapore</td>
<td>4,498,662</td>
<td>21.53</td>
<td>448,592</td>
<td>2.48</td>
</tr>
<tr>
<td>Japan</td>
<td>1,089,349</td>
<td>5.21</td>
<td>252,347</td>
<td>1.40</td>
</tr>
<tr>
<td>Vietnam</td>
<td>943,997</td>
<td>4.52</td>
<td>457,737</td>
<td>2.53</td>
</tr>
<tr>
<td>US</td>
<td>144,137</td>
<td>0.69</td>
<td>730,069</td>
<td>4.04</td>
</tr>
</tbody>
</table>

Source: Investment Commission, Ministry of Economic Affairs

The greatest share of Taiwan's investment overseas apart from mainland China, that is, 58.7 %, went to the financial and insurance sector (mostly to investment holding companies), while investment in manufacturing was mostly concentrated in the electronic parts and components sector, accounting for 16.7 % of outward investment.

3. Inward investment in Taiwan in 2012 amounted to US$ 5.5 billion. The financial and insurance sectors absorbed 37.3 % of the combined value of investment, followed by investments in wholesale and retail trade (18.3 %) and electronic parts and components manufacturing (11.1 %). In 2012, Europe was the main source of foreign investment in Taiwan, occupying a share of 30.9 % of inward investments, with the Netherlands as the main European investor at 21.5 %. Second after Europe were the Caribbean Islands which accounted for 24.9 % of inward investment. Asian countries - mostly Japan, Hong Kong and Singapore - were the 3rd most important investors in 2012, with a share of 20.7 %. From 2009 till the end of 2011, USD 175.5 million was invested by mainland Chinese companies, whereas in 2012 alone, mainland Chinese companies invested USD 328.0 million.
### Taiwan inward investment in 2011 and 2012 – US$1000

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount 2012</th>
<th>2012 (% of total amount)</th>
<th>Amount 2011</th>
<th>2011 (% of total amount)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5,558,981</td>
<td>100.00</td>
<td>4,955,435</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>1,721,837</td>
<td>30.97</td>
<td>716,496</td>
<td>14.46</td>
<td>140.31</td>
</tr>
<tr>
<td>Caribbean islands</td>
<td>1,385,246</td>
<td>24.92</td>
<td>1,129,214</td>
<td>22.79</td>
<td>22.67</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,199,435</td>
<td>21.58</td>
<td>529,975</td>
<td>10.67</td>
<td>126.75</td>
</tr>
<tr>
<td>Asia</td>
<td>1,150,986</td>
<td>20.70</td>
<td>1,848,314</td>
<td>37.30</td>
<td>-37.73</td>
</tr>
</tbody>
</table>

Source: Investment Commission, Ministry of Economic Affairs

4. In its report of April 2013, the US-based research institute Business Environment Risk Intelligence (BERI) ranked Taiwan 3rd in the world in terms of investment environment, taking into account operational, political and foreign exchange risks. In Asia, Taiwan retained its position as the second-best investment destination after Singapore. In the World Competitiveness Report 2012-2013 of the World Economic Forum, Taiwan is ranked 13th out of 144 countries globally and 4th in Asia in terms of global competitiveness. According to the report, Taiwan’s competitiveness profile is consistently strong. Major strengths cited include its highly efficient markets for goods, where the economy ranks 8th, its solid educational performance (9th), and its sophisticated business sector (13th), which is inclined to innovate (14th).

Also in the Global Competitiveness Yearbook published by IMD (International Institute for Management and Development) in 2012, Taiwan was at the top of the list: 11th out of 60 countries and 3rd in Asia. Taking a long-term view, Taiwan is considered by IMD as a “winner” in the sense that is among the countries that have risen the most since 1997 (other winners include: China, Germany, Israel, Korea, Mexico, Poland, Sweden and Switzerland).

The Economic Cooperation Framework Agreement, which was concluded in June 2010 between Taiwan and mainland China, is considered an important factor to enhance Taiwan’s attractiveness for investment. According to a 2012 study of the European Centre for International Political Economy (ECIPE) and a 2012 study of Copenhagen Economics¹, greater Taiwan-China economic integration in combination with a free trade agreement (FTA) between the EU and Taiwan could deliver large gains for European firms, particularly in firms in the ICT sector that use Taiwan as a high-value hub in Greater China and wider East Asian supply chains.

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H. Price

The wholesale price index (WPI) decreased by 1.1 % over the whole of 2012, reflecting a decrease in international raw materials prices. Taiwan’s import prices and export prices fell by 1.2 % and 1.6 % respectively in NT dollar terms.

The consumer price index (CPI) went up by 1.9 % in 2012. The CPI increase reflects higher retail prices of certain goods and services due to price hikes in fuel and electricity. In the second half of 2012, prices of fruits and vegetables climbed higher because of bad weather conditions. In the first half of 2013, the CPI rose by 1.3 %, while the WPI decreased by 3.0 %.

I. Taiwan’s external trade links

The Economic Cooperation Framework Agreement (ECFA), which was concluded in June 2010 between Taiwan and mainland China, is considered an important factor to enhance Taiwan’s attractiveness for investment. According to a 2012 study of the European Centre for International Political Economy (ECIPE) and a 2012 study of Copenhagen Economics, greater Taiwan-China economic integration in combination with a free trade agreement (FTA) between the EU and Taiwan could deliver large gains for European firms, particularly in firms in the ICT sector that use Taiwan as a high-value hub in Greater China and wider East Asian supply chains.

Within the framework of the Economic Cooperation Framework Agreement (ECFA), the Cross-Strait Bilateral Investment Protection and Promotion Agreement was signed in August 2012, ensuring better protection for Taiwanese investors in mainland China. Also within the framework of the ECFA, Taiwan and mainland China signed a cross-strait trade in services agreement on June 21, 2013, resulting in the opening up of services sectors on both sides. These agreements are expected to not only boost the cross-strait economy, but also boost Taiwan’s position as a regional headquarters and a “stepping stone” to mainland China and other Asian countries.

In addition to the ECFA, Taiwan strives to establish trade agreements with its trading partners, which substantive progress has brought in better access to foreign markets and enhanced trade relations with its trading partners.

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FTA/ECA Negotiations:

1. FTAs with Central American trading partners: Taiwan signed FTAs with Panama, Guatemala, Nicaragua, Honduras and El Salvador.

2. Singapore: Taiwan began formal negotiations with Singapore in May, 2011 for an economic partnership agreement. Both sides have reached substantive agreement and are working on legal review of the text. Both Parties are endeavoring to sign the Agreement at the earliest possible time.

3. New Zealand: Taiwan and New Zealand announced the completion of their joint feasibility study on May 18th, 2012, and began formal negotiations at the end of that month. The Agreement between the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and New Zealand on Economic Cooperation (ANZTEC) was signed on 10 July 2013.

Feasibility Studies:

1. India: Taiwan and India have established a “Joint Study Group on Taiwan-India Economic Framework Agreement” between Taiwan’s Chung-Hua Institute for Economic Research (CIER) and India’s ICRIER to conduct the feasibility study. The second year report by the Group is expected to be completed in the first quarter of 2013.

2. The Philippines: Taiwan and the Philippines have agreed to commission respective think tanks to study the feasibility of establishing an ECA. Currently, the two sides are working to formulate an outline of the study, and to smooth out administrative matters.

3. Indonesia: The Indonesian Institute of Sciences (LIPI) and Taiwan’s CIER published their joint study in December, 2012. The study suggests that the two sides may use a “building block” approach, such as industry cooperation, investment promotion, capacity building and SME cooperation, to expand bilateral trade relations.

Results of the “Building Block” Approach

1. Japan: Taiwan and Japan completed a bilateral investment arrangement on September 22nd, 2011, and it entered into force on January 20th, 2012. The arrangement is warmly welcomed by the private sector, as evidenced by the resulting 30% growth of Japanese investment in Taiwan. In addition, the two sides also completed a bilateral “Electrical and Electronic Equipment Mutual Recognition Arrangement” on November 29th, 2012.

2. The US: Taiwan and the US are negotiating various subjects of mutual interests under the Trade and Investment Framework Agreement (TIFA), which was resumed in March 2013.
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