TAIWAN'S ECONOMIC SITUATION AND OUTLOOK

Council for Economic Planning and Development
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GLOBAL ECONOMY

Latest IMF forecasts (April 2005) :

⇨ **World economic growth**: Estimate for 2004 and forecast for 2005 are 5.1% and 4.3%, respectively.

- **United States**: Momentum has slowed down since the second quarter of 2004. Growth is estimated to be 4.4% in 2004 and forecasted to be 3.6% in 2005.
- **Japan**: Growth slowed sharply since the second quarter, and is estimated to reach 2.6% in 2004. With improvements in underlying fundamentals, growth is expected to recover to 0.8% in 2005.
- **Euro area**: The pace of the expansion is expected to remain moderate, with growth estimate for 2004 and forecast for 2005 being 2.0% and 1.6%, respectively.
- **Asia**: In developing Asia, NIEs and Mongolia, economic performance remains strong, although growth momentum has slowed noticeably in 2004, with the exception of China. Growth is estimated to be 7.8% for 2004 and expected to slightly weaken to 7.0% in 2005
- **Trade volume:** Estimate for 2004 and forecast for 2005 are 9.9% and 7.4%, respectively.

World Economic Outlook

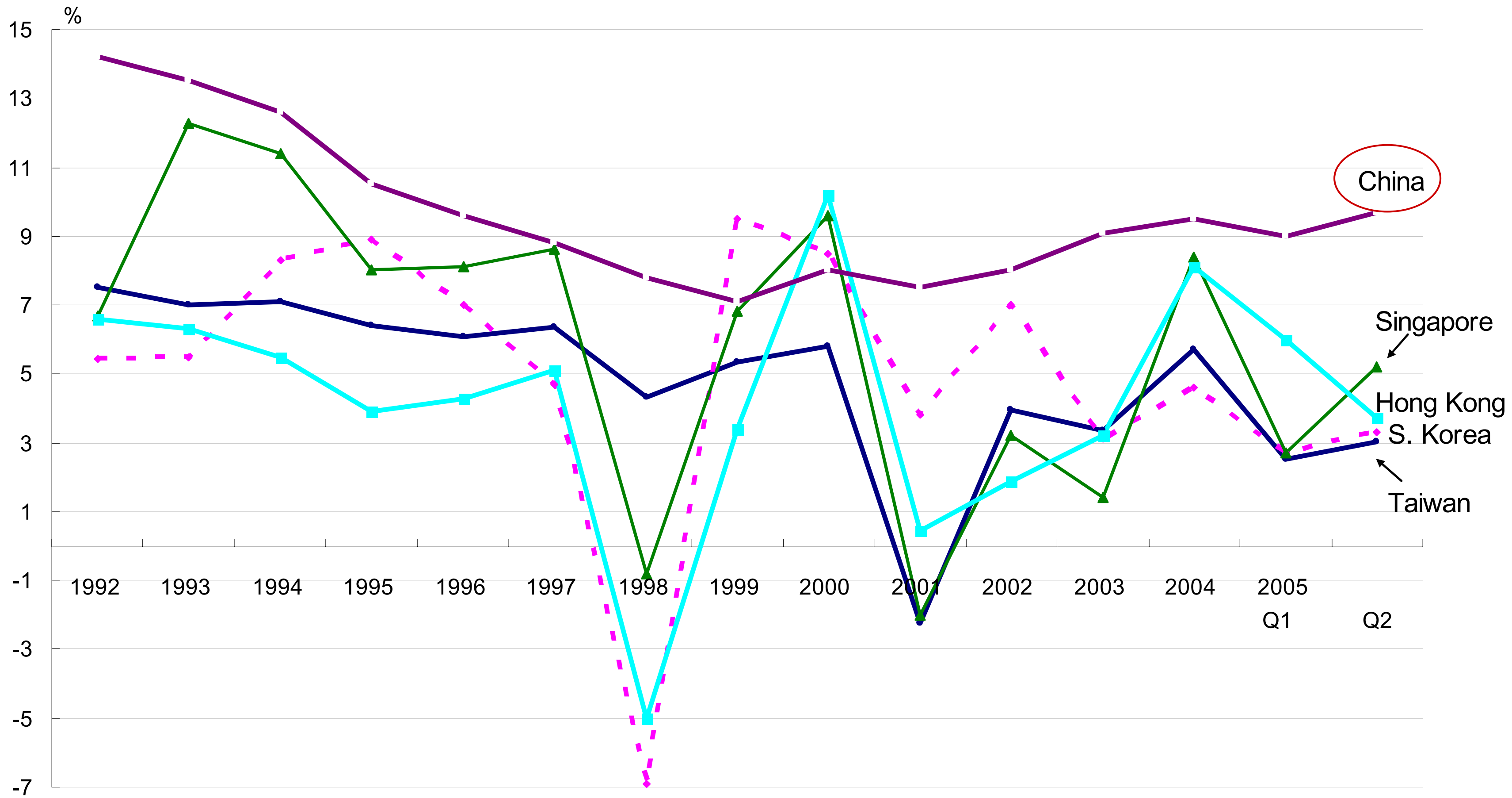
	IMF			Global Insight		
	2004	2005	2006	2004	2005	2006
World Economic Growth %	**5.1**	**4.3**	**4.4**	**4.0**	**3.2**	**3.2**
United States	4.4	3.6	3.6	4.2	3.7	3.2
Japan	2.6	0.8	1.9	2.7	1.3	1.3
Euro area	2.0	1.6	2.3	1.8	1.3	1.7
Developing Asia	8.2	7.4	7.1	-	-	-
Asia excluding Japan	-	-		6.9	6.1	6.2
Asian NIEs*	5.5	4.0	4.8	-	-	-
China	9.5	8.5	8.0	9.5	9.3	8.7
World Trade Volume Growth %	**9.9**	**7.4**	**7.6**	-	-	-

*Korea, Taiwan, Hong Kong, and Singapore.

Sources: 1. IMF, *World Economic Outlook,* April 2005.
2. Global Insight, August 2005.

Asian Tigers and China: Economic Growth

China outperformed the Asian tigers during 2004 and the first half of 2005.



Sources: World Bank; Directorate General of Budget, Accounting, and Statistics.

DOMESTIC ECONOMY

1. *Economic Growth*

Thanks to a pick-up in global economic growth, Taiwan's exports and private investment both grew significantly faster in 2004 than in the preceding year. Private consumption also posted steady growth, reflecting the boost to confidence generated by falling unemployment. While there were signs that the growth momentum was softening in the second half of the year, the yearly growth rate recorded a robust 5.7%. The first half of 2005 saw a noticeable decline in the pace of expansion to 1.6%, due to slowing world economy.

Contribution to Economic Growth (in percentage points)

	Economic growth (yoy)	Domestic demand								Net foreign demand		
		Total	Consumption		Gross fixed capital formation				Increase in inventory	Total	Exports of goods & services	Less: Imports of goods & services
			Private	Gov't	Subtotal	Private sector	Public enterprises	Gov't				
2000	5.8	3.8	3.0	0.04	1.9	2.2	-0.1	-0.2	-1.2	2.0	8.8	6.8
2001	-2.2	-4.8	0.6	-0.1	-4.9	-4.6	0.04	-0.3	-0.4	2.6	-4.4	-7.0
2002	3.9	1.2	1.3	0.2	-0.3	0.4	-0.04	-0.6	0.0	2.8	5.4	2.6
2003	3.3	0.5	0.5	0.1	-0.4	-0.2	-0.1	-0.1	0.3	2.8	5.9	3.1
2004	5.7	5.7	1.9	-0.1	2.6	3.1	-0.3	-0.2	1.3	0.02	8.9	8.9
2005f	3.7	3.0	1.9	0.1	1.4	1.3	0.1	0.02	-0.4	0.6	1.9	1.3
Q1	2.5	2.8	1.9	-0.1	1.8	1.7	0.2	-0.1	-0.8	-0.3	0.8	1.0
Q2p	3.0	3.4	1.8	0.1	1.6	1.5	0.2	-0.1	-0.1	-0.4	1.3	1.7
Q3f	4.3	3.6	2.0	0.1	1.5	1.4	0.04	0.1	-0.1	0.8	2.4	1.7
Q4f	4.6	2.3	1.7	0.1	0.9	0.7	0.01	0.2	-0.4	2.3	3.2	0.8

p: Preliminary; f: Forecast; r: Revised.
Source: Directorage-General of Budget, Accounting, and Statistics, 190th Commission on National Income Statistics Meeting, August 18, 2005.

DOMESTIC ECONOMY

2. *Foreign Trade*

(1) Two-way trade

- Exports and imports posted double-digit increase rates in 2004. The robust trend softened in the first seven months of 2005 with two-way trade increasing 8.9%.
- In 2004, trade surplus registered US$6.1 billion. It amounted to US$1.2 billion in January-August of 2005.

Foreign Trade

US$ billion; yoy %

	Trade		Exports		Imports		Balance $
	Value $	Growth %	Value $	Growth %	Value $	Growth %	
1998	215.2	-9.0	110.6	-9.4	104.7	-8.5	5.9
1999	232.3	7.9	121.6	10.0	110.7	5.8	10.9
2000	288.3	24.1	148.3	22.0	140.0	26.5	8.3
2001	230.1	-20.2	122.9	-17.2	107.2	-23.4	15.6
2002	243.1	5.7	130.6	6.3	112.5	4.9	18.1
2003	271.5	11.7	144.2	10.4	127.2	13.1	16.9
2004	341.9	26.0	174.0	20.7	167.9	31.9	6.1
2005 Jan-Aug	**240.7**	**8.9**	**121.0**	**6.7**	**119.8**	**11.2**	**1.2**

Source: Ministry of Finance.

DOMESTIC ECONOMY

(2) Major trading partners

⇨ Exports to Hong Kong and Mainland China, among major trade partners, have expanded the fastest since 2002.

⇨ Exports to and imports from the United States returned to positive growth in 2004 after declining for three consecutive years.

Changes in Two-way Trade with Major Trading Partners

	Exports (annual change rate %)					Imports (annual change rate %)				
	USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*	USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*
1999	5.2	27.6	3.5	11.3	21.3	0.1	13.3	-14.6	9.2	15
2000	12.7	39.5	16.7	24.5	29.3	27.6	26	8.1	27.1	40.4
Share	25.4	9.8	16.7	23.5	10.4	17.8	27.6	15.9	6.0	12.7
2001	-20.6	-23.1	-16.5	-10.8	-21.6	-27.4	-33.0	-21.2	-7.8	-21.2
2002	-3.2	-6.1	-6.3	28.7	2.9	-0.7	5.5	-2.3	24.9	3.7
2003	-3.1	-0.5	10.2	22.1	8.9	-7.0	19.6	10.9	31.0	5.4
2004	8.4	10.8	14.6	28.3	33.7	28.6	33.7	31.1	48.0	16.1
2005 Jan-Aug	**2.7**	**7.9**	**-0.8**	**7.4**	**12.5**	**2.0**	**11.0**	**4.9**	**20.4**	**0.6**
Share	15.4	7.7	12.4	37.2	13.7	12.0	25.9	12.1	11.8	11.2

*ASEAN6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Source: Ministry of Finance.

DOMESTIC ECONOMY

(3) Trade structure

- ⇨ The share of heavy and technology-intensive industrial products of total exports continued to rise after it shrank slightly in 2001. It rose considerably to 77.2% in 2004 and further to 77.6% in January – August of 2005.
- ⇨ The share of imports of capital goods recorded 20.8% in January-August 2005, slightly lower than the level in 2004.

Composition of Foreign Trade

	Composition (%)						Change (yoy % in US$)	
	1996	2001	2002	2003	2004	**2005 Jan-Aug**	2004	**2005 Jan-Aug**
Exports	100	100	100	100	100	**100.0**	20.7	**6.7**
Agricultural Products	0.4	0.2	0.3	0.3	0.2	**0.2**	0.7	**-2.1**
Processed Agricultural Products	3.1	1.4	1.3	1.2	1.2	**1.1**	17.7	**0.6**
Industrial Products	96.5	98.4	98.4	98.5	98.6	**98.7**	20.8	**6.8**
Heavy & Technology-intensive Industry*	60.5	71.1	73.1	75.3	77.2	**77.6**	23.6	**7.6**
Others	36.0	27.3	25.3	23.2	21.4	**21.1**	11.5	**4.0**
Imports	100	100	100	100	100	**100.0**	31.9	**11.2**
Capital Goods	17.9	25.0	23.0	20.5	21.4	**20.8**	38.2	**11.0**
Raw Materials	69.0	65.7	67.7	70.5	70.4	**70.7**	31.8	**10.9**
Consumer Goods	13.1	9.2	9.3	9.1	8.2	**8.5**	19.1	**14.0**

* Including industries of chemicals, chemical products, rubber products, plastic products, basic metals, fabricated metal products, machinery & equipment, electrical & electronic machinery, transport equipment, and precision instruments.

Source: Ministry of Finance website www.mof.gov.tw, *Summary Explanation of Exports and Imports*, September 7, 2005.

3. *Domestic Investment*

In the first half of 2005, private investment expanded 13.3%, largely due to expansions in the airline, high-tech and high-speed railway sectors. During the same period, investment by public enterprises increased 15.0%, while government investment fell by 3.5%.

Real Gross Fixed Capital Formation

NT$ billion; yoy %

	Total		Private investment		Public enterprises investment		Government investment	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
2000	2282.0	8.4	1565.6	15.1	230.9	-3.0	485.5	-4.2
2001	1811.6	-21.1	1108.9	-29.1	240.3	1.6	462.4	-6.4
2002	1773.0	-1.6	1136.7	3.1	234.7	-1.6	401.6	-13.0
2003	1737.5	-2.1	1120.0	-1.6	223.6	-4.7	393.9	-1.8
2004	1971.1	15.4	1417.9	28.2	183.0	-15.1	370.2	-4.2
2005_f	2125.8	7.8	1558.8	9.9	195.0	6.6	371.9	0.5
$Q1_p$	438.9	11.9	332.5	15.5	33.8	16.5	72.6	-3.5
$Q2_f$	515.6	8.8	381.2	11.5	47.9	13.9	86.5	-3.6
$Q3_f$	526.7	8.5	387.2	10.7	44.3	2.8	95.3	2.8
$Q4_f$	644.6	4.0	458.0	4.5	69.1	0.2	117.5	4.4

f: Forecast. p: Preliminary. r: Revised.

Source: DGBAS, 190th Commission on National Income Statistics Meeting, August 18, 2005.

DOMESTIC ECONOMY

4. *Production*

Industrial production posted double-digit growth in the first half of 2004, but showed signs of slowdown in the second, increasing 9.9% for the whole year. It contracted 0.1% in the first seven months of 2005, with manufacturing decreasing 0.5% and construction increasing 11.8%.

Growth of Industrial Production

%

	Total	Mining	Manufacturing*	Electricity, gas, and water	Construction
2001	-7.8	0.1	-8.4	1.1	-11.2
2002	7.9	8.3	9.4	3.3	-20.7
2003	7.1	-7.4	7.4	3.8	8.9
2004	9.9	-4.4	10.6	3.0	4.9
2005 Jan-Jul	-0.1	-9	-0.5	2.6	11.8

*Including industries of chemicals, chemical products, rubber products, plastic products, basic metals, fabricated metal products, machinery & equipment, electrical & electronic machinery, information, transport equipment, and precision instruments.

Source: Ministry of Economic Affairs, *Industrial Production Statistics Monthly, Taiwan*.

DOMESTIC ECONOMY

5. *Employment*

Nonagricultural employment has displayed marked improvement since the third quarter of 2003. The unemployment rate reached a historical high in 2002, and gradually lowered to 4.4% in 2004 and further to 4.17% in the first seven months of 2005.

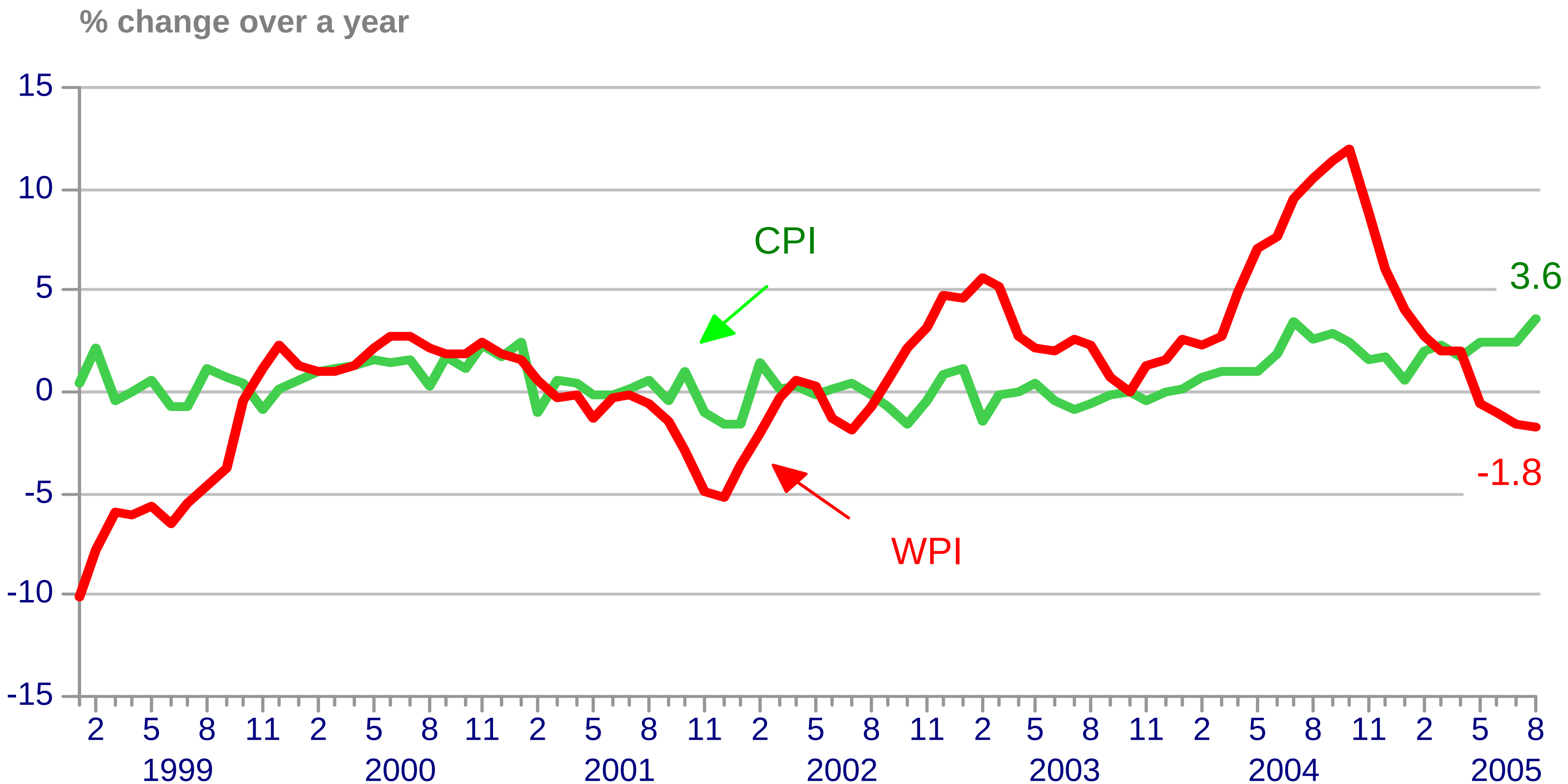
	Labor Force		Unemployment		Nonagricultural employment	
	1,000 persons	Participation %	1,000 persons	Rate %	1,000 persons	yoy, %
2001	9,832	57.2	450	4.57	8,677	-0.9
2002	9,969	57.3	515	5.17	8,745	0.8
2003	10,076	57.3	503	4.99	8,877	1.5
2004	10,240	57.7	454	4.44	9,144	3.0
Q1	10,160	57.4	460	4.53	9,038	2.6
Q2	10,216	57.6	453	4.44	9,114	3.1
Q3	10,291	57.9	473	4.60	9,181	3.2
Q4	10,295	57.7	430	4.18	9,242	3.1
2005 Jan-Jul	**10,335**	**57.7**	**431**	**4.17**	**9,305**	**2.3**

Source: Directorate General of Budget, Accounting, and Statistics.

DOMESTIC ECONOMY

6. *Prices*

Prices rose much faster during the second and third quarters of 2004 and softened in the last quarter with the fluctuations in energy prices. Thanks to the softening of international prices of raw materials, wholesale prices declined 1.8% in August, while consumer prices rose 3.6%, driven by rising food costs because of bad weather.

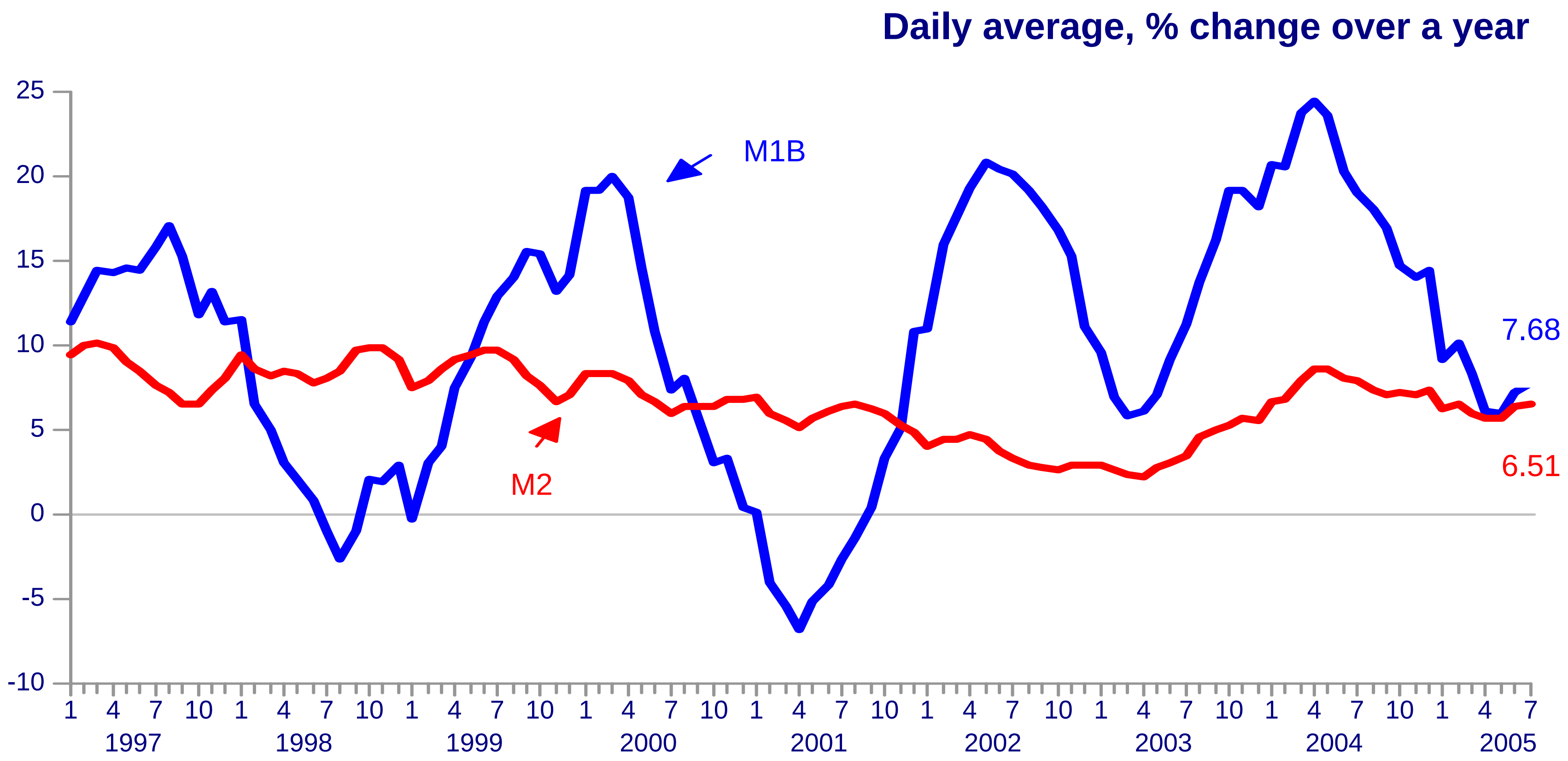


DOMESTIC ECONOMY

7. *Money and Finance*

(1) Money supply

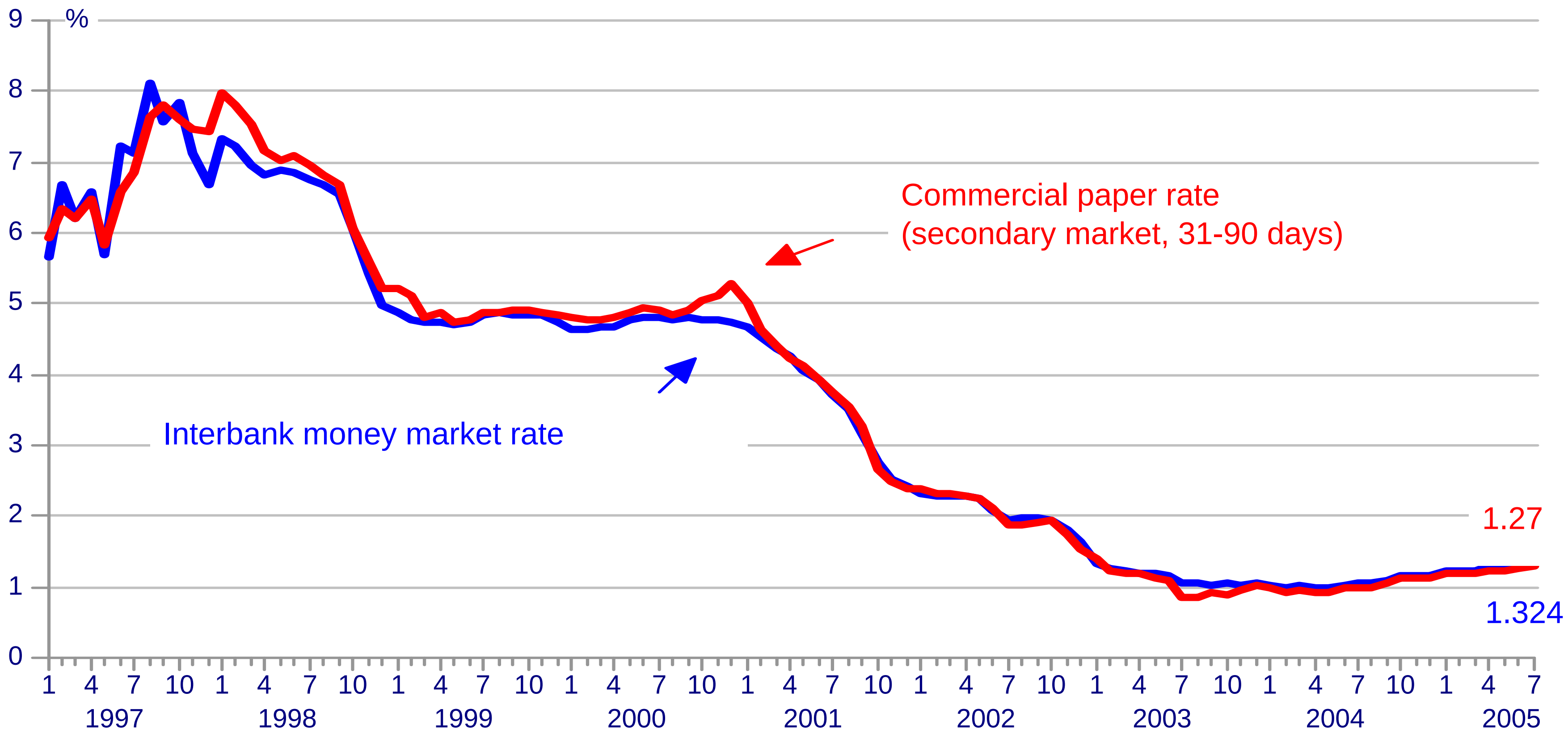
Monetary supply expansion slowed down since June 2004. It picked up again in May 2005, mainly due to the increases in foreign capital inflows.



DOMESTIC ECONOMY

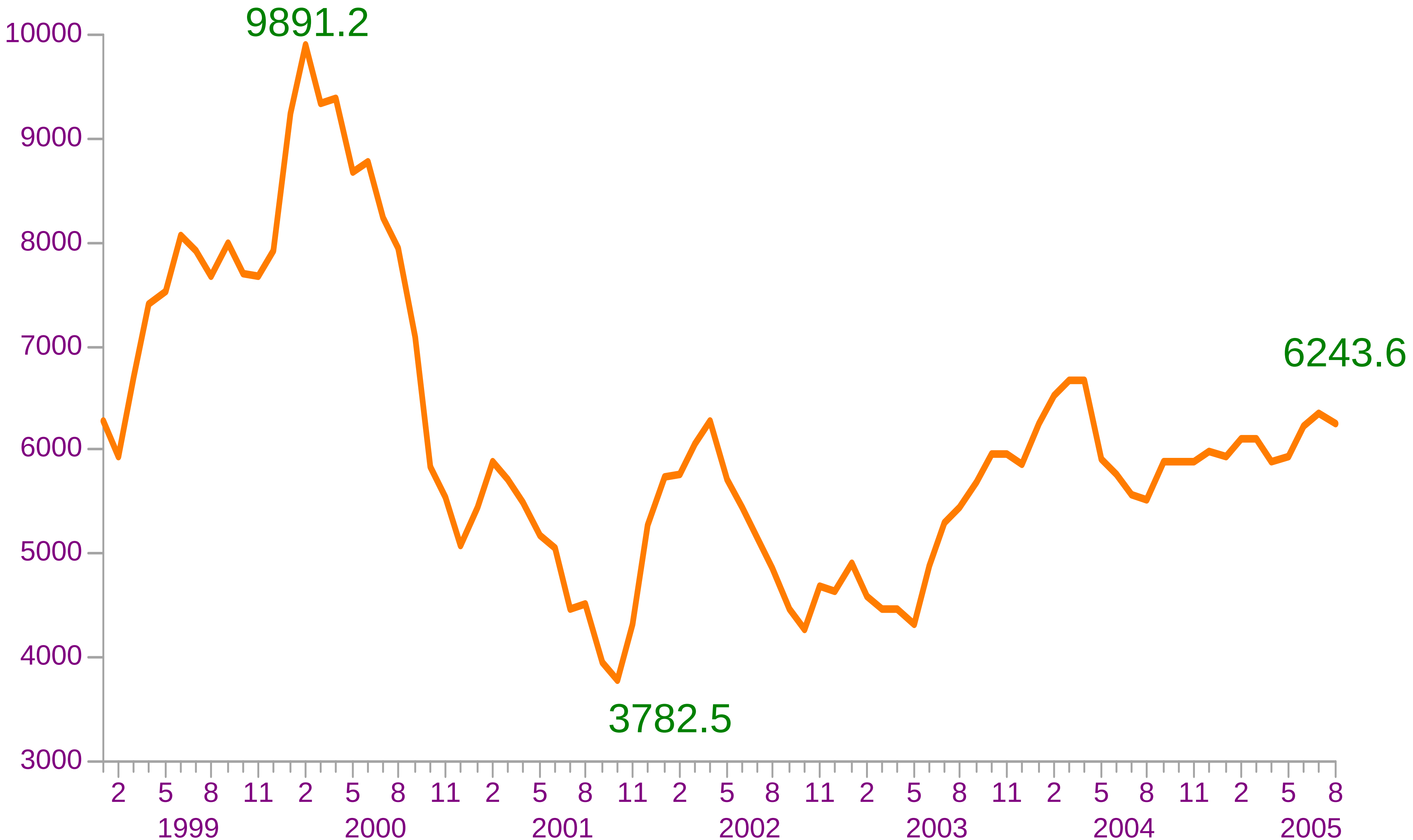
(2) Interest rates

Market interest rates have seen a slightly upward trend since the second half of 2004, but are still considered below their normal levels. In July 2005, commercial paper rate and interbank rate recorded 1.27% and 1.32%, respectively. The Central Bank raised the rediscount rate four times since October 2004, from 1.375% to 2.0% on July 1 2005.



Taiwan Stock Exchange Index

Capitalization weighted, monthly average, 1966 Avg=100



II.8 DOMESTIC ECONOMY

8. *Business Monitoring Indicators*

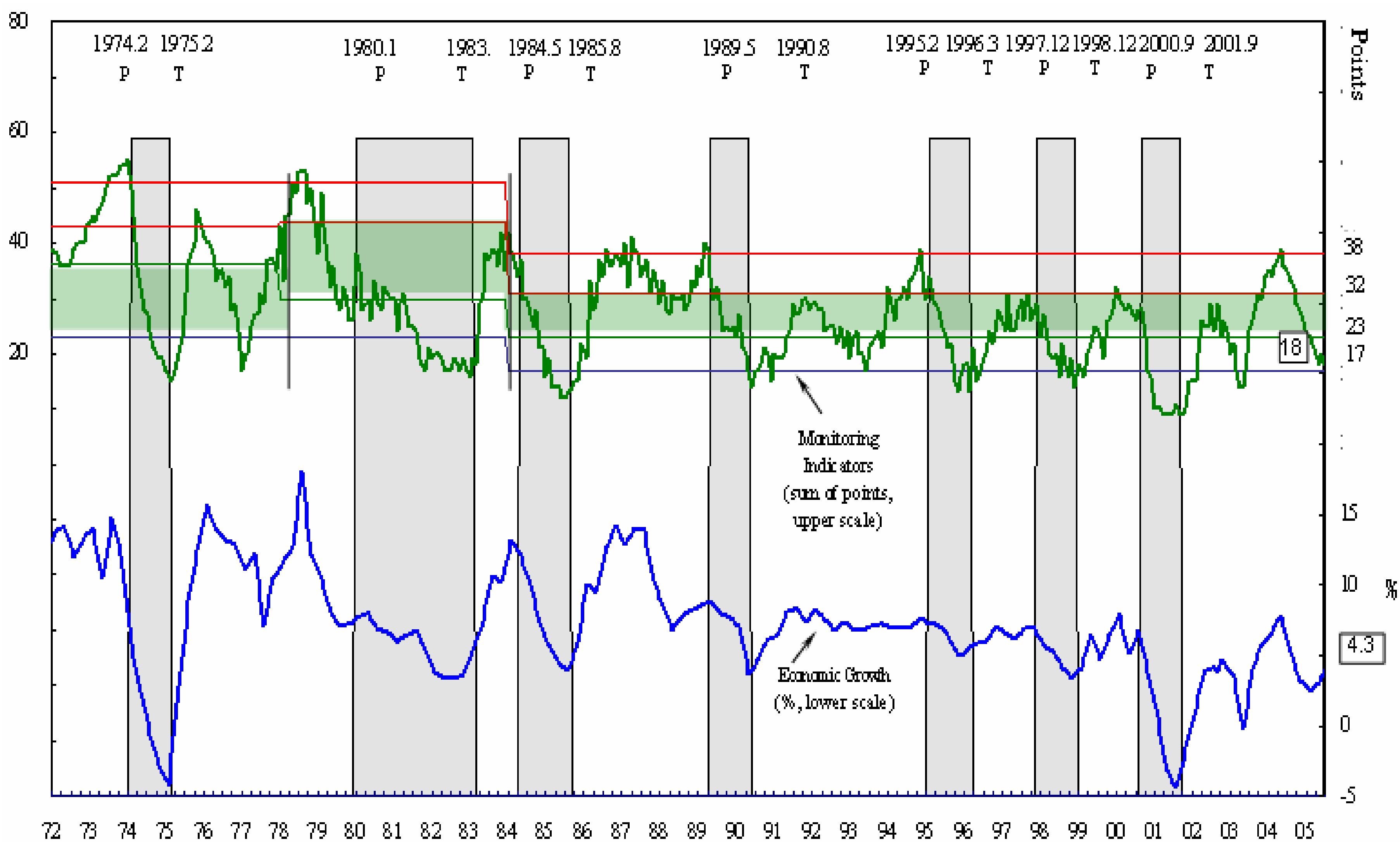
Although the monitoring indicators continued to flash "yellow-blue" in July, their score was two points lower than in June. The mixed movement of indicators increased the uncertainty about whether the economy is picking up again.

		2004						2005							
		7	8	9	10	11	12	1	2	3	4	5	6	7	
Total Scores		Yellow-red 35	Yellow-red 33	Yellow-red 32	Green 29	Green 28	Green 26	Green 23	Green 23	Yellow-blue 22	Yellow-blue 20	Yellow-blue 18	Yellow-blue 20	Yellow-blue 18	
Financial Sector	Monetary Aggregates M1B, yoy %	Red	Red	Red	Red	Yellow-red	Red	Yellow-red	Green	Green	Green	Yellow-blue	Green	Green	7.6
	Direct and Indirect Finance, yoy %	Yellow-blue	Yellow-blue	Yellow-blue	Yellow-blue	Yellow-blue	Yellow-blue	Yellow-blue	Yellow-blue	Yellow-blue	Blue	Blue	Blue	Blue	6.7
	Bank Clearings and Remittance, yoy %	Green	Yellow-blue	Yellow-blue	Blue	Green	Yellow-blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	-8.5
	Stock Price Index, 1966=100, yoy%	Green	Green	Green	Yellow-blue	Yellow-blue	Green	Yellow-blue	Yellow-blue	Yellow-blue	Yellow-blue	Green	Green	Green	14.1
Real Sector	Manufacturing New Order Index, 1996$, 1976.1=100, yoy %	Green	Green	Green	Green	Green	Green	Green	Yellow-blue	Yellow-blue	Blue	Yellow-blue	Yellow-blue	Blue	1.2p
	Exports, 2001$, yoy %	Red	Yellow-red	Yellow-red	Green	Green	Yellow-blue	Green	Yellow-blue	Green	Green	Yellow-blue	Yellow-blue	Yellow-blue	3.9
	Industrial Production Index, 2001=100, yoy %	Yellow-red	Yellow-red	Green	Green	Green	Blue	Yellow-blue	Green	Yellow-blue	Yellow-blue	Blue	Yellow-blue	Blue	-0.1
	Manufacturing Inventory-to-Sales ratio, %	Red	Red	Red	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green	65.4p
	Nonagricultural Employment, yoy %	Red	Red	Red	Red	Red	Red	Yellow-red	Red	Yellow-red	Yellow-red	Green	Green	Green	1.7

Red: Overheating; Yellow-red: Transition in need of watching; Green: Steadily moving forward; Yellow-blue: Transition in need of watching; Blue: Recession

Note: All data, except stock price index, have been seasonally adjusted.

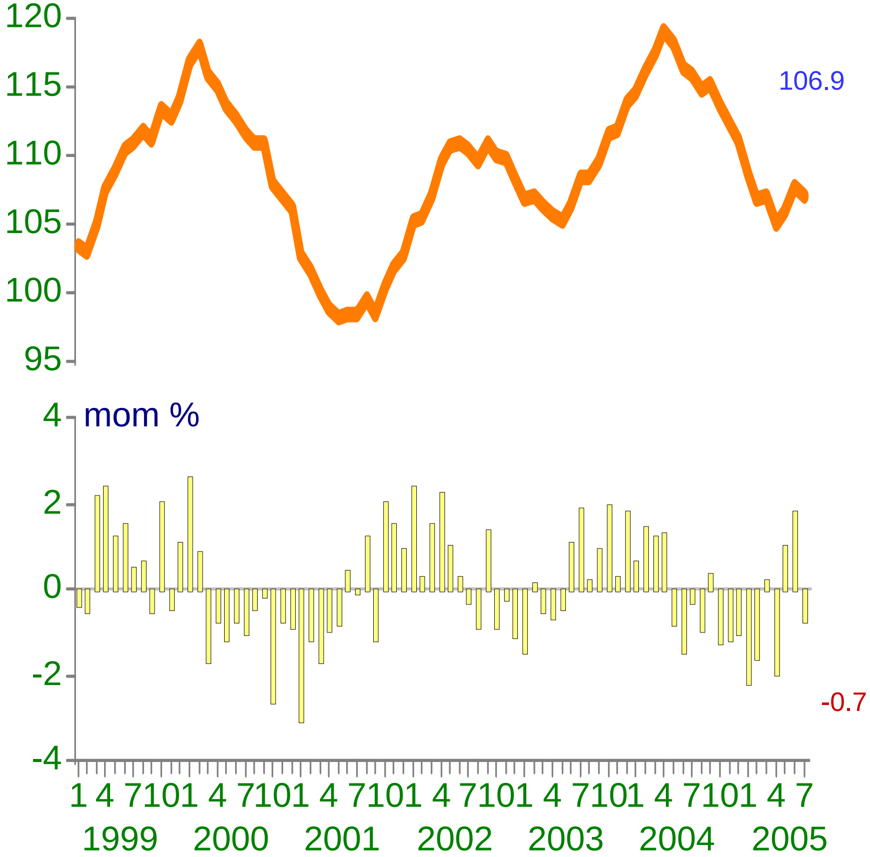
Monitoring Indicators and Economic Growth



DOMESTIC ECONOMY

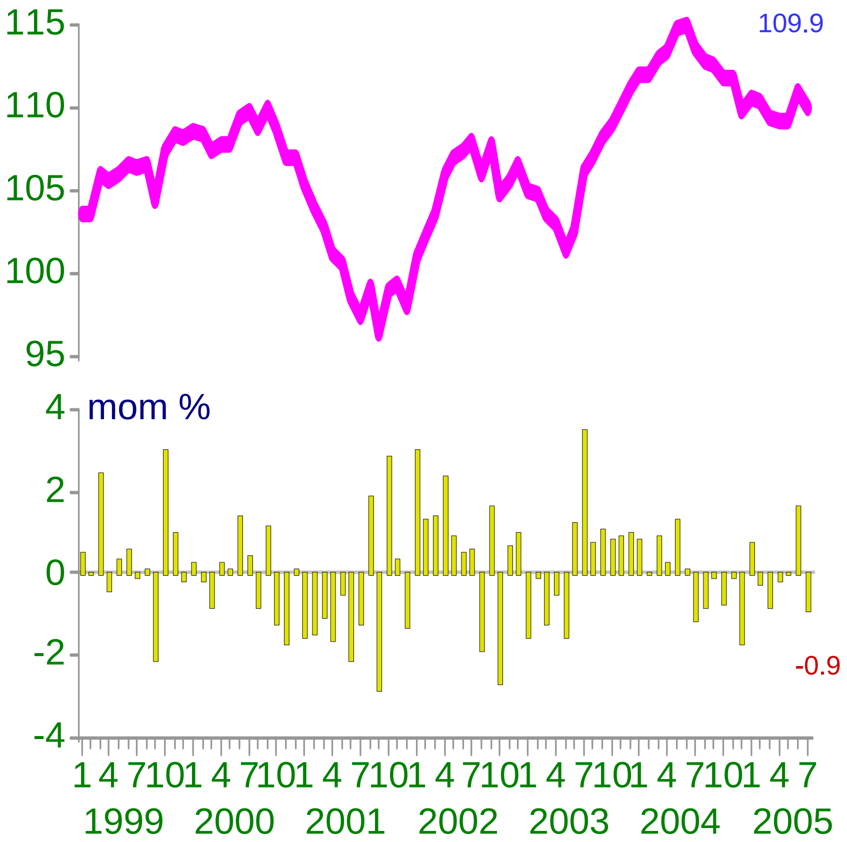
Composite Leading Index

2001=100



Composite Coincident Index

2001=100



Source: CEPD.

DOMESTIC ECONOMY

According to surveys conducted by the Council for Economic Planning and Development, the number of manufacturing firms that held pessimistic view in excess of those who were optimistic increased further in July 2005.

		Business Expectation 3 months later				Capacity Utilization	Profit
		% of manufacturing firms surveyed					
		Better (1)	Unchanged	Worse (2)	Net (1)-(2)	(%)	(%)
2004	Jul	12	71	17	-5	80.7	5.1
	Aug	16	71	13	3	80.5	5.0
	Sep	14	68	18	-4	80.4	5.0
	Oct	13	71	16	-3	80.4	5.0
	Nov	12	68	20	-8	80.1	4.9
	Dec	12	71	17	-5	80.3	4.8
2005	Jan	22	64	14	8	80.3	4.9
	Feb	23	67	10	13	77.0	4.6
	Mar	17	72	11	6	80.5	5.1
	Apr	14	67	19	-5	79.8	5.0
	May	18	65	17	1	79.8	5.0
	Jun_r	19	61	20	-1	79.6	4.9
	Jul_p	18	61	21	-3	79.6	4.8

Source: CEPD.

PROSPECTS

- Thanks to continued improvement in employment, private consumption grew steadily during the first half of 2005. Meanwhile, private investment gained momentum with plant enlargements by the high-tech industries, construction of the high-speed railway, and fleet expansion by the airline industries. During the same period, export growth cooled off from exceptionally high pace reached in 2004, following the weakening of global economic expansion and continuing overseas relocation of domestic manufacturers.
- The economy is expected to grow faster in the second half of 2005, given the upward trend of capacity utilization, ongoing implementation of large-scaled private investment projects, and quickened pace in the construction of public infrastructure projects.
- For 2005, growth is officially forecast to reach 3.65%, with the CPI increasing 2%.

ECONOMIC FORECASTS FOR TAIWAN

Forecasting institution	Release time	2005 %	2005 Difference from last projection	2006 %
World Bank	Apr 2005	4.2	-0.1	4.3
IMF	Apr 2005	4.0	-0.1	4.3
Global-Insight	Aug 2005	3.8	0.0	3.6
CIER	Apr 2005	4.05	-0.32	4.42
TIER	July 2005	3.31	-1.1	-
DGBAS	Aug 2005	3.65	0.02	4.03
Academia Sinica	June 2005	3.74	-0.31	-

CIER: Chung-hua Institute for Economic Research, Taipei.
DGBAS: Directorate-General of Budget, Accounting and Statistics, Taiwan, ROC.
TIER: Taiwan Institute of Economic Research, Taipei.

CURRENT ISSUES

1. ***Current Economic Issues***

⇨ **Hiking oil prices** may contribute to upward pressure on domestic prices, and **the movements of the US dollar value** and **interest rates** are also generating agitation in domestic financial market.

⇨ **The ongoing implementation of Kyoto Protocol** is anticipated to greatly affect the iron and steel, petrochemical, cement, paper pulp and synthetic fiber industries, as Taiwan, though not a party to the pact yet, reduces carbon dioxide emissions.

⇨ **Dependence** on exports to and investment in mainland China is rapidly increasing yet the development of a cross-straits communications and consultation mechanism is at a standstill.

⇨ **Fiscal deficits** have expanded rapidly in the past decade, as it has become more difficult in raising fiscal revenues and contracting expenditures.

CURRENT ISSUES

- **Inadequate infrastructure** has been on the top list of impediments to Taiwan's competitiveness improvement by major studies in competitiveness.
- **The financial system** is overbanked, with 14 financial holding companies and a large number of banks competing together, and none of them enjoying a market share of more than 10%. This situation needs to be improved as soon as possible.
- **The emerging imbalance in manpower development**
  1) The unemployment ate rose from 3.0% in 2000 to around 5% in 2002. Although lowering to 4.2% in June 2005, whether the target of 4.0% can be met remains a challenge for the government, given lower economic performance in the first half of the year.
  2) There is a growing inadequacy in the supply of highly professional and specialized manpower, managers, and basic-skilled workforce.

POLICY INITIATIVES

1. Key Policy Initiatives

⇨ **The inter-ministerial price monitoring taskforce** met in September 2004 and announced measures to diminish fears of inflation. The taskforce will respond to changes in price stability.

⇨ **A taskforce for climate change and the Kyoto Protocol** is being organized to seek optimal solutions to meet both environmental and economic goals.

1) Assistance will be provided to industries to voluntarily reduce carbon dioxide emissions.
2) Private business sectors will be encouraged to raise energy efficiency and emphasize green production process.

POLICY INITIATIVES

⇨ **Easing restrictions on economic links with mainland China and monitoring recent economic developments in China**

1) The "no haste, be patient" mainland investment policy has been replaced with a less restrictive "proactive liberalization with effective management" approach.
2) The preparatory phase of cross-strait direct transportation links is already underway.
3) "Measures on cross-Strait freight facilitation" are to be announced at appropriate time.
4) The government is closely monitoring China's tightening measures and their impact on the Chinese and Taiwanese economies.

⇨ **Fiscal reform**

1) The government has established a fiscal reform committee to draw up plans for achieving a balanced budget within five to ten years.
2) Another committee has been formed to consolidate the management of state-owned properties to help increase government revenues.

POLICY INITIATIVES

⇨ **Financial reform:**

1) A plan to develop Taiwan as a regional financial services center has been launched to help form a funding center, to promote asset management business, to develop a variety of new financial products, and to strengthen the health of the financial market.

2) The government has stepped up efforts, including providing assistance domestic banks to merge and inviting foreign financial consultancy, to achieve the following goals:

   ✓ Developing at least three financial institutions each with a market share of more than10% by the end of 2005;

   ✓ Halving the number of banks with government ownership from 12 to 6 by the end of 2005;

   ✓ Encouraging M&As to reduce the number of financial holding companies form 14 to 7;

   ✓ Having at least one financial institution either managed by foreign institutions or listed in overseas markets by the end of 2006.

POLICY INITIATIVES

- **Strengthening Corporate governance:** An inter-ministerial "corporate governance reform taskforce" completed a "Policy Agenda and Action Plan to Strengthen Corporate Governance" near the end of 2003. Top priority has been placed on reform in companies listed on the stock and over-the-counter markets, especially financial service firms, to be followed by gradual extension to other businesses.
- **Infrastructural development** A spending around US$15 billion by the government plus US$6 billion by private investment for the next five years has been launched to step up development in transportation, high-technology, higher education, cultural creativity, harbors, water resources and sewage management.
- **Measures to increase employment:** For the long run, the government is promoting services with high potentials in production value, job creation, value-added, international competitiveness, and raising the quality of life. Among the list of such service industries are financial services, wholesale, retail, logistics/distribution/transportation, medical care, manpower training, tourism, cultural and creative, design, information, property management, R&D, environmental protection, and engineering consultancy.

Policy Initiatives

- **Stimulus package:** In the face of slowing economic growth in the first quarter of 2005, several measures to boost the economy are to be implemented:
  - ✓ The government will earmark US$6.4 billion for loans to small and medium-sized enterprises (SMEs). Moreover, a sum of US$3.2 billion will be provided in credit guarantees to each SME borrowing from the banks.
  - ✓ The government will provide another US$9.4 billion for the government-backed preferential mortgages for first-time homebuyers after the current package expires in June.
  - ✓ Quicken from quarterly to monthly performance evaluation of public projects of more than US$3.2 million, and achieve higher than 90% of targeted performance.
  - ✓ With the legislative approval of the budget for the New Ten Construction Projects, the government will vigorously implement this capacity-building scheme.

POLICY INITIATIVES

2. *The Medium-term National Development Plan (2005-2008)*

⇨ The comprehensive plan is designed to foster economic, science, technology and education, environmental, social, and institutional development.

⇨ The vision of a "green silicon island," as proposed in the previous medium-term plan, is reiterated, and will be pursued while meeting new challenges from global competition, and addressing domestic issues of ageing, environmental conservation, and social harmony.

⇨ The major policy directions include:

1) To continue investment in manpower development, R&D, global logistics infrastructure, and living environment. Top priority is given to promote the New Ten Projects for full-fledged implementation.
2) To develop industrial clusters such as Hsinchu biology park, science parks in central and southern Taiwan.
3) To promote further two-trillion, two-star industries, including petrochemical, image display, machinery and equipment, iron and steel, digital content, and biotech.
4) To step up value-adding efforts for such traditional industries as high-tech textile, health food, high-end materials, chemicals for optic electronics.
5) To carry out the guidelines and action programs for service sector development.
6) To develop 7 free port zones and encourage businesses to set up operations headquarters in Taiwan.
7) To build up a regional financial services center that will help increase the share of financial services in GDP from 11.5% in 2003 to 13% in 2008, expand assets of financial institutions by more than 30%.

National Development Plan--Macroeconomic Targets

Targets	2005-2008	2005-2015
Growth of potential GDP / Economic growth	4.9%	4.6%
Per capita GDP	US$18,000 (2008)	US$27,000 (2015)
Employment increase	1.4%	1.2%
Unemployment rate	4.0% (2008)	4.0% (2015)
CPI increase		

New Century Manpower Plan

The New Ten Projects

GOAL

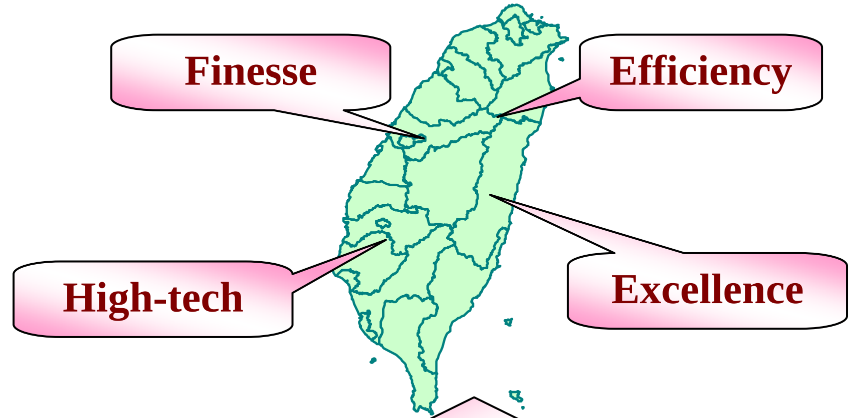
Strengthen International Competitiveness

STRATEGY

- **First-rated manpower, innovation**
- **Knowledge-based, cultural creativity**
- **Global logistics, international competition**
- **Convenient living, ecological sustainability**

CRITERIA

- **Forward looking**
  - meeting trend, creating values
- **Pivotal**
  - critical to restructuring and high linkage effect
- **Landmark**
  - significant breakthrough and inducing regional development
- **Urgent**
  - immediate improvement is indispensable
- **Balanced**
  - regional development; central-local partnership



Vision

1 Top-rated universities and research centers

2 International arts and popular music centers
3 "M" (Mobile) Taiwan
4 Taiwan exposition

5 Converting railway to rapid transit
6 Third-phase freeways
7 Kaohsiung Harbor intercontinental container center

8 North, middle, south mass rapid transit systems
9 Wastewater treatment
10 Lowland reservoirs and desalination plants

Expected Economic Benefits

Intangible Benefits

- **Increase the capital value of human resource**
- **Raise the commodity value of the environment**
- **Create cultural values**
- **Enrich national living**

+

Measurable Benefits

Promote economic growth

GDP growth up by 1.0-1.4 percentage points a year

Generate private demand

Private demand up by 0.6-0.8 percentage point a year

Increase job opportunities

Create 64,000 jobs a year

Ease deflationary pressure

CPI increase up by 0.2 percentage point

Expand tax collection

Increase tax revenue by NT$ 70-150 billion in the coming 5 year

Services Industry Development

Strategies

➔ Deregulation

Currently in Taiwan, with administrative responsibility for service industries scattered among different agencies, there is lack of any active approach and concrete planning to guide the sector's development through regulatory measures. The best way for the government to actively promote service industries' development would be to discard the regulatory mindset and put the onus on private enterprises to take charge of doing it for themselves.

➔ Push for modernization of services

Presently, the government lacks understanding of how to commercialize agricultural and medical innovation and turn educational resources to industrial advantage, and so cannot easily play a leading role in market expansion. Therefore, it should simply concentrate on strengthening existing policies and market mechanisms for service sector development, releasing public resources and arousing private-sector vitality to lead the way.

➔ Adopt a negative-list approach

At present, many laws and regulations concerning service industries adopt a 'positive-list' 'management' and approval approach. This should be replaced by a 'negative-list' approach that makes market entry easier and facilitates the introduction and development of new products.

➔Improve the legal and regulatory system

To promote service sector development, the whole body of related laws and regulations needs to be thoroughly overhauled, including those governing company management, land-use zoning, labor, environmental protection, intellectual property, etc., to remove obstacles created by outmoded laws and give service industries more room to grow and thrive.

Services Targeted for Development

1. Financial services
2. Logistics and distribution services
3. Telecommunications & media services
4. Medical, healthcare & care-giving services
5. Manpower training, dispatching & property management services
6. Tourism, sporting & recreational services
7. Cultural & creative services
8. Design services
9. Information services
10. R&D services
11. Environmental protection services
12. Engineering consulting services

Development of Financial Services

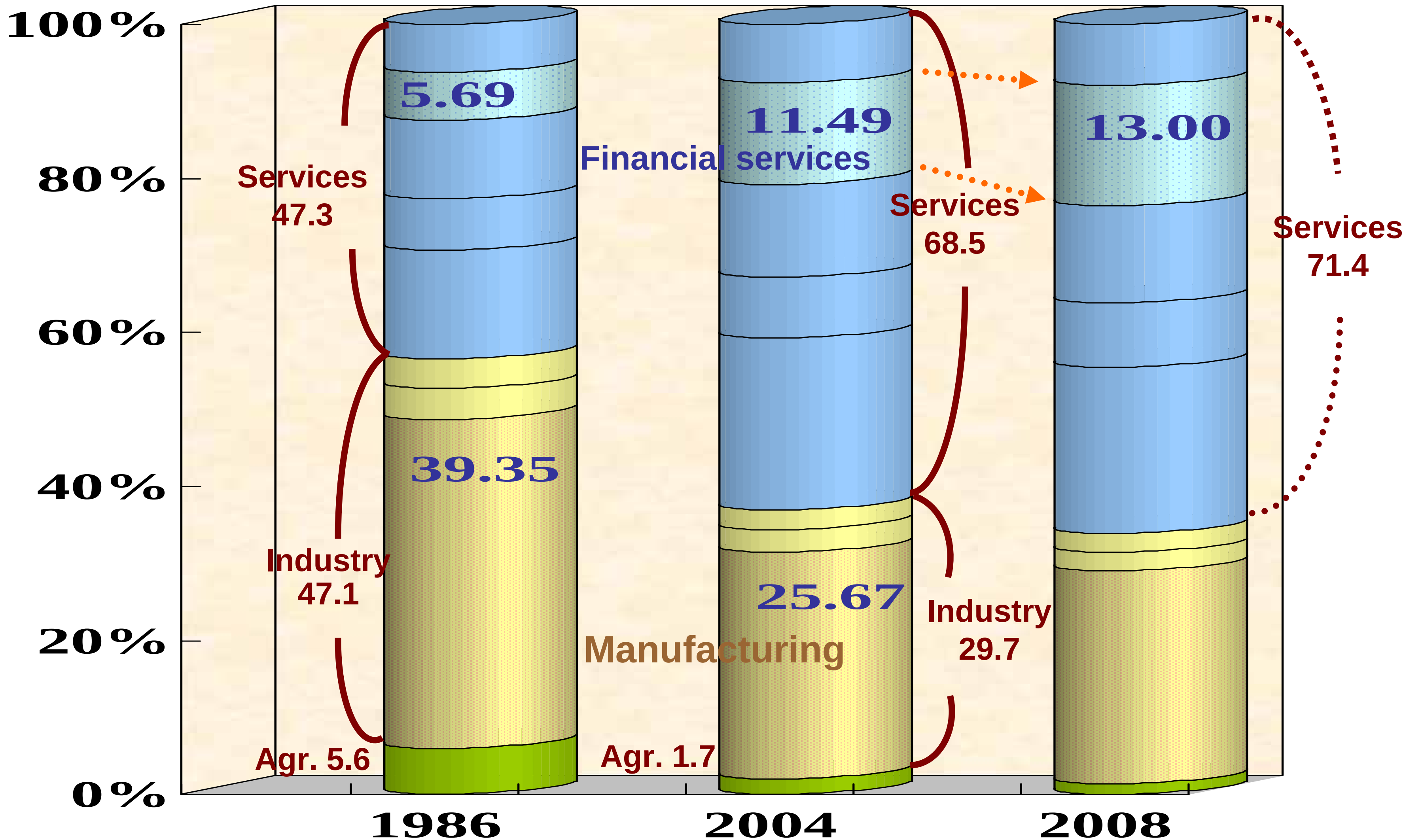
Strategies

- ⇨ Developing sound investment climate (deregulation and re-regulation)
- ⇨ Promoting regional fundraising center
- ⇨ Promoting asset management business
- ⇨ Developing diversified financial services
- ⇨ Strengthening the competence of financial market

Top Priorities

- ⇨ Build regional financial services center
- ⇨ Promote financial consolidation and speed up M&A
- ⇨ Ensure that laws governing the financial sector are sound, appropriate, and complete, and strengthen training of financial professionals
- ⇨ Strengthen financial supervision, effectively deal with non-performing loans, and improve the administration of the agricultural finance system
- ⇨ Improve the soundness of the insurance and bond markets, develop the domestic asset management industry, and promote Taiwan's development as a regional fund-raising center

Changing Economic Structure



Thank you