

# TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development

Executive Yuan

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# I. GLOBAL ECONOMY

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## Latest IMF forecasts (April 2006)

- ⇒ **World economy:** Continued headwinds from high oil prices are expected to be offset by a gradual pickup in investment, very favorable financial market conditions, and continued accommodative macroeconomic policies. Growth is projected at 4.9% in 2006.
- ⇒ **Industrial economies:** The United States remains the main engine of growth, but the Japanese expansion is well established, and there are signs of a more sustained recovery in the euro area, although domestic demand growth remains subdued.
- ⇒ **Developing economies:** Growth in most of these economies remains solid, with the buoyancy of activity in China, India, and Russia being particularly striking.
- ⇒ **Oil prices** are being increasingly driven by concerns about future supply, with the International Energy Agency assessing both upstream and downstream investment to be significantly below desirable levels. Futures markets suggest prices will remain close to current levels for the foreseeable future.
- ⇒ **The future path of interest rates:** Global short-term interest rates will rise further, accompanied by significant changes in short-run interest differentials, as the tightening cycle in the U.S. reaches completion while those in the euro area—and, recently, Japan—become more advanced. Corporate excess saving will decline from current high levels over the next few years as investment increases, and this will likely put upward pressure on long-term interest rates .
- ⇒ **World trade:** The goods and service trade is estimated to increase 7.3% in 2005, and is expected to strengthen to 8.0% in 2006.

# World Economic Outlook

%

	IMF			Global Insight		
	2005	2006	2007	2005	2006	2007
<b>World Economic Growth</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>	<b>3.6</b>	<b>3.8</b>	<b>3.3</b>
United States	3.5	3.4	3.3	3.5	3.3	2.6
Japan	2.7	2.8	2.1	2.7	3.2	2.2
Euro area	1.3	2.0	1.9	1.4	2.1	1.7
Developing Asia	8.6	8.2	8.0	-	-	
Asia-Pacific excluding Japan	-			6.8	6.8	6.4
Asian NIEs*	4.6	5.2	4.5	-	-	
China	9.9	9.5	9.0	9.9	9.9	8.8
<b>World Trade Volume Growth</b>	<b>7.3</b>	<b>8.0</b>	<b>7.5</b>	-	-	-

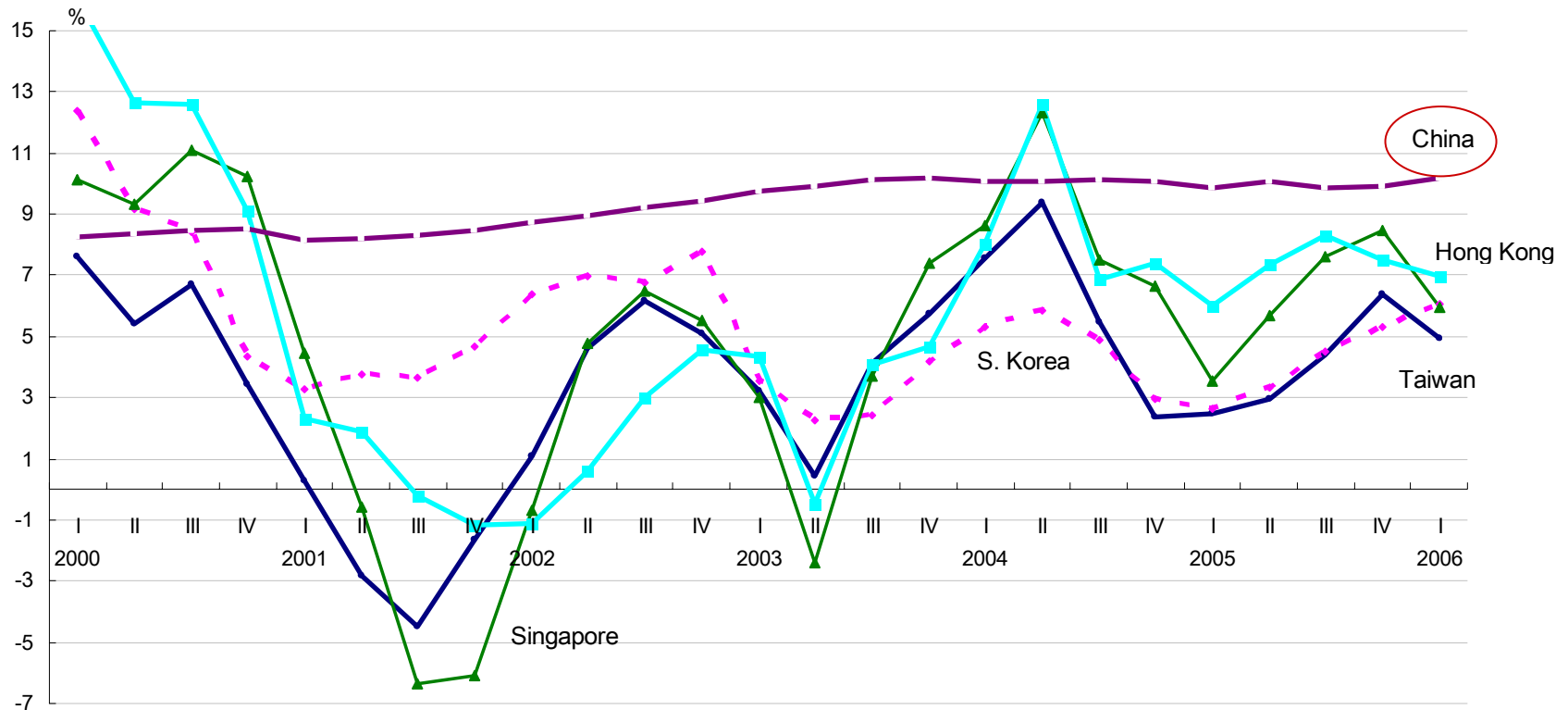
\*South Korea, Hong Kong, Singapore, and Taiwan.

Sources: 1. International Monetary Fund, *World Economic Outlook*, April 2006.

2. Global Insight, May 2006.

# Asian Tigers and China: Economic Growth

China's growth continued to run at various robust rates in 2005, while the Asian NIEs have been affected by higher oil prices, higher dollar interest rates and slower demand growth in global high-tech markets. However, the pace of activity in the NIEs was already reviving in the second quarter.



Sources: Global Insight; Directorate-General of Budget, Accounting and Statistics.

## II. CURRENT DOMESTIC SITUATION

### *Economic Growth*

Despite the deceleration in the first half of 2005 due to a worldwide slowdown, the economy gained momentum in the second half, thanks to the boost brought to exports by the booming global consumer electronics market and the steady pickup in private consumption, leading to a 4.1% growth for the whole year. The economy grew 4.9% in the first quarter of 2006, with exports and manufacturing production and private consumption remaining strong.

### **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	2.8	0.1	2.1	2.4	-0.1	-0.2	-1.2	2.0	8.5	6.5
2001	-2.2	-4.6	0.4	0.1	-4.7	-4.4	0.03	-0.3	-0.4	2.5	-4.2	-6.7
2002	4.3	1.6	1.5	0.3	-0.1	0.5	-0.03	-0.6	-0.01	2.6	5.1	2.5
2003	3.4	0.7	0.6	0.1	-0.2	-0.03	-0.1	-0.04	0.3	2.7	5.7	3.0
2004	6.1	6.3	2.3	-0.1	3.1	3.7	-0.4	-0.2	1.0	-0.2	8.2	8.5
2005	4.1	1.6	1.8	0.1	0.1	-0.2	0.3	0.01	-0.4	2.5	4.2	1.6
Q2	3.0	3.2	1.7	0.1	1.5	1.3	0.2	-0.1	-0.01	-0.3	1.9	2.2
Q3	4.4	2.9	2.2	0.1	0.1	-0.3	0.2	0.1	0.6	1.5	4.1	2.6
Q4	6.4	-2.4	1.5	0.2	-2.8	-3.0	0.3	0.02	-1.4	8.8	9.3	0.5
2006												
Q1p	4.9	1.2	1.3	0.01	-0.7	-0.5	-0.1	-0.1	0.6	3.8	8.3	4.6

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

Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), 193rd Commission on National Income Statistics Meeting, May 18, 2006.

# CURRENT DOMESTIC SITUATION

## Foreign Trade

- ⇒ Exports and imports softened in 2005, with two-way trade increasing 8.5%. Exports and imports expanded by 12.4% and 8.1%, respectively, in the first four months of 2006.
- ⇒ Trade surplus grew to US\$15.8 billion in 2005, from US\$13.6 billion in 2004. It posted US\$5.6 billion in January-April 2006, up US\$2.8 billion from the same months last year.

## Foreign Trade

US\$ billion; yoy %

	Trade		Exports		Imports		Balance
	Value	Growth	Value	Growth	Value	Growth	
1999	234.9	7.9	123.7	9.9	111.2	5.7	10.9
2000	292.7	24.6	151.9	22.8	140.7	26.6	8.3
2001	234.3	-20.0	126.3	-16.9	108.0	-23.3	15.6
2002	248.6	6.1	135.3	7.1	113.2	4.9	22.1
2003	278.6	12.1	150.6	11.3	128.0	13.0	22.6
2004	351.1	26.0	182.4	21.1	168.8	31.8	13.6
2005	381.1	8.5	198.4	8.8	182.6	8.2	15.8
<b>2006 Jan-Apr</b>	<b>131.9</b>	<b>10.3</b>	<b>68.8</b>	<b>12.4</b>	<b>63.2</b>	<b>8.1</b>	<b>5.6</b>

Note: Trade data are adjusted according to the United Nations IMTS Compilers Manual (2004). Total exports include “exports” and “re-exports,” and total imports include “imports” and “reimports.”

Source: Ministry of Finance.

# CURRENT DOMESTIC SITUATION

## Major trading partners

- ⇒ Imports from and exports to Hong Kong and Mainland China have expanded the fastest during most of the last five years.
- ⇒ Trade shares of the United States, Europe and Japan have narrowed in contrast to increasing shares of Hong Kong and China.

## Changes in Two-way Trade with Major Trading Partners

		Exports					Imports					Yoy %
		USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*	USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*	
2000		12.7	39.5	16.7	24.5	29.3	27.6	26	8.1	27.1	40.4	
2001		-20.6	-23.1	-16.5	-10.8	-21.6	-27.4	-33.0	-21.2	-7.8	-21.2	
	Share	25.4	9.8	16.7	23.5	10.4	17.8	27.6	15.9	6.0	12.7	
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		1.4	9.7	-0.8	12.2	14.5	-3.0	5.3	2.3	16.2	3.9	
<b>2006 Jan-Apr</b>		<b>12.1</b>	<b>6.1</b>	<b>6.1</b>	<b>16.8</b>	<b>10.3</b>	<b>-3.9</b>	<b>-2.6</b>	<b>-5.6</b>	<b>15.3</b>	<b>14.9</b>	
	Share	14.7	7.6	11.9	39.5	13.5	10.8	24.0	10.7	12.5	11.5	

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

Source: Ministry of Finance.



# CURRENT DOMESTIC SITUATION

## Domestic Investment

Total investment increased at a modest rate of 0.5% in 2005, with private investment declining 1.3% while investment by government and by public enterprises expanding 0.3% and 17.2%, respectively. In 2006, private investment is expected to grow more quickly while government investment will grow only marginally. Investment by public enterprises is expected to fall as a result of privatization

## Gross Fixed Capital Formation: Real Growth and Current-price Value

NT\$ billion; yoy %

	Total		Private investment		Public enterprises investment		Government investment	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
2000	2394.0	9.0	1670.4	15.6	233.9	-3.0	489.7	-4.1
2001	1910.0	-19.9	1218.6	-26.8	234.6	1.4	456.8	-6.4
2002	1878.7	-0.6	1252.2	4.1	226.8	-1.3	399.7	-12.8
2003	1874.9	-0.9	1253.1	-0.3	219.2	-4.1	402.6	-1.1
2004	2279.6	17.5	1686.2	31.0	181.6	-18.2	411.8	-5.7
2005	2269.7	0.5	1645.1	-1.3	207.5	17.2	417.2	0.3
Q2	586.4	7.4	440.3	9.0	48.4	14.8	97.7	-3.2
Q3	546.9	0.3	394.0	-2.0	48.2	14.3	104.7	3.8
Q4	599.7	-11.9	397.9	-18.0	74.6	10.0	127.2	0.6
2006 Q1 <sub>p</sub>	517.1	-4.0	398.1	-3.9	34.0	-4.9	85.1	-3.8

Note: All national account data are revised according to System of National Accounts 1993 (1993 SNA).

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

Source: DGBAS, 193rd Commission on National Income Statistics Meeting, May 18, 2006.

# CURRENT DOMESTIC SITUATION

## *Production*

Industrial production softened in the first half of 2005, but has displayed much more strength since August, increasing 3.4% for the whole year. It went up higher in the first four months of 2006, with manufacturing and construction industries increasing 7.7% and 17.3%, respectively.

### 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	3.4	-9.9	3.2	3.8	11.4
<b>2006 Jan-Apr</b>	<b>7.6</b>	<b>-8.0</b>	<b>7.7</b>	<b>3.0</b>	<b>17.3</b>

Source: Ministry of Economic Affairs.

# CURRENT DOMESTIC SITUATION

## *Employment*

Nonagricultural employment growth decelerated in 2005 and further in the first four months of 2006. The unemployment rate continued to display a declining trend, dropping to 3.84% in January-April 2006, the lowest since 2001.

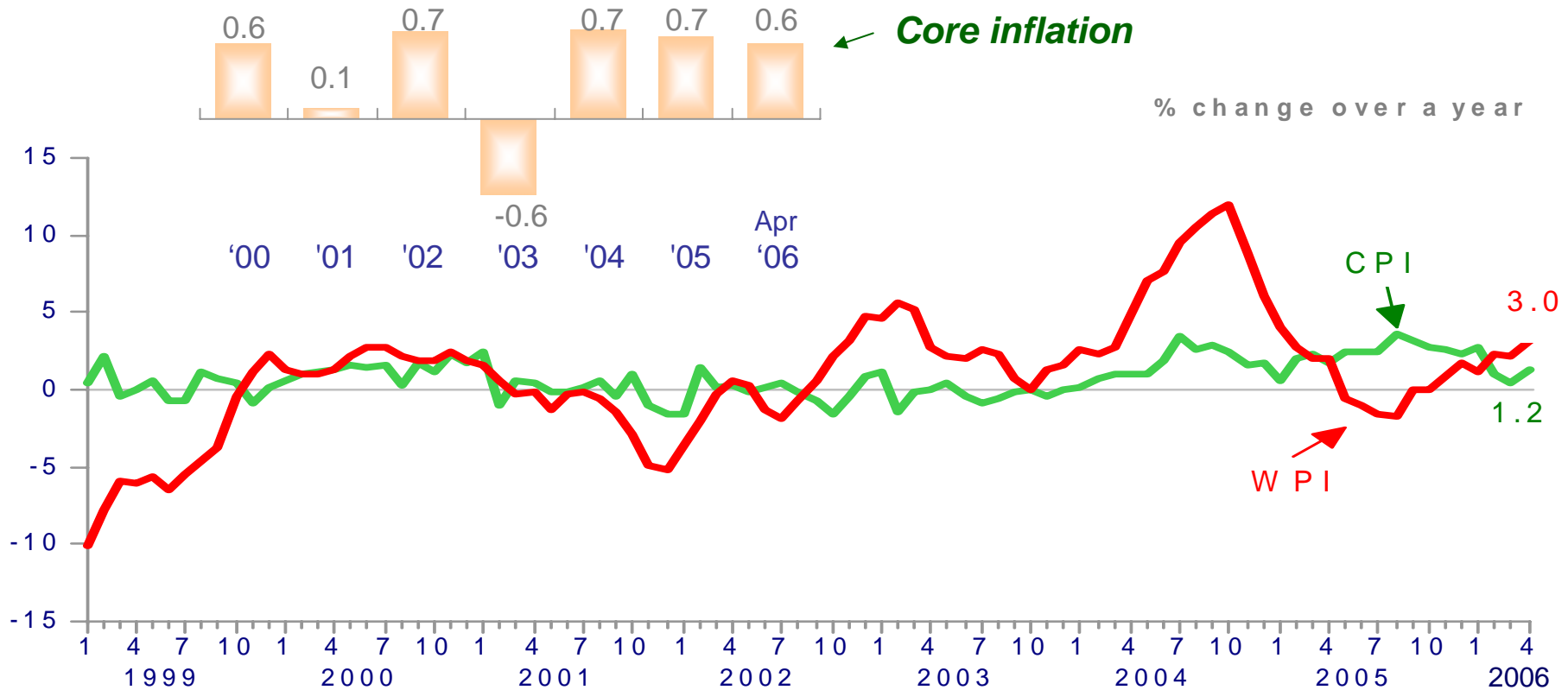
	Labor Force		Unemployment		Nonagricultural employment	
	1,000 persons	Participation %	1,000 persons	Rate %	1,000 persons	yoy, %
2001	9,832	57.2	450	4.57	8,677	-0.9
2002	9,969	57.3	515	5.17	8,745	0.8
2003	10,076	57.3	503	4.99	8,877	1.5
2004	10,240	57.7	454	4.44	9,144	3.0
2005	10,371	57.8	428	4.13	9,351	2.3
<b>2006</b>						
<b>Jan-Apr</b>	<b>10,432</b>	<b>57.7</b>	<b>401</b>	<b>3.84</b>	<b>9,474</b>	<b>2.0</b>

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

# CURRENT DOMESTIC SITUATION

## Prices

Prices increased moderately in 2005, with consumer prices up by 2.3%. Thanks to higher prices of energy products as well as electrical machineries and equipment, wholesale prices in April 2006 increased 3.0% from a year ago. Consumer prices rose 1.2%, with increases in vegetables, oil, tobacco, and medical services offsetting a fall in meat. Core prices (excluding fresh food and energy prices) rose 0.6%.

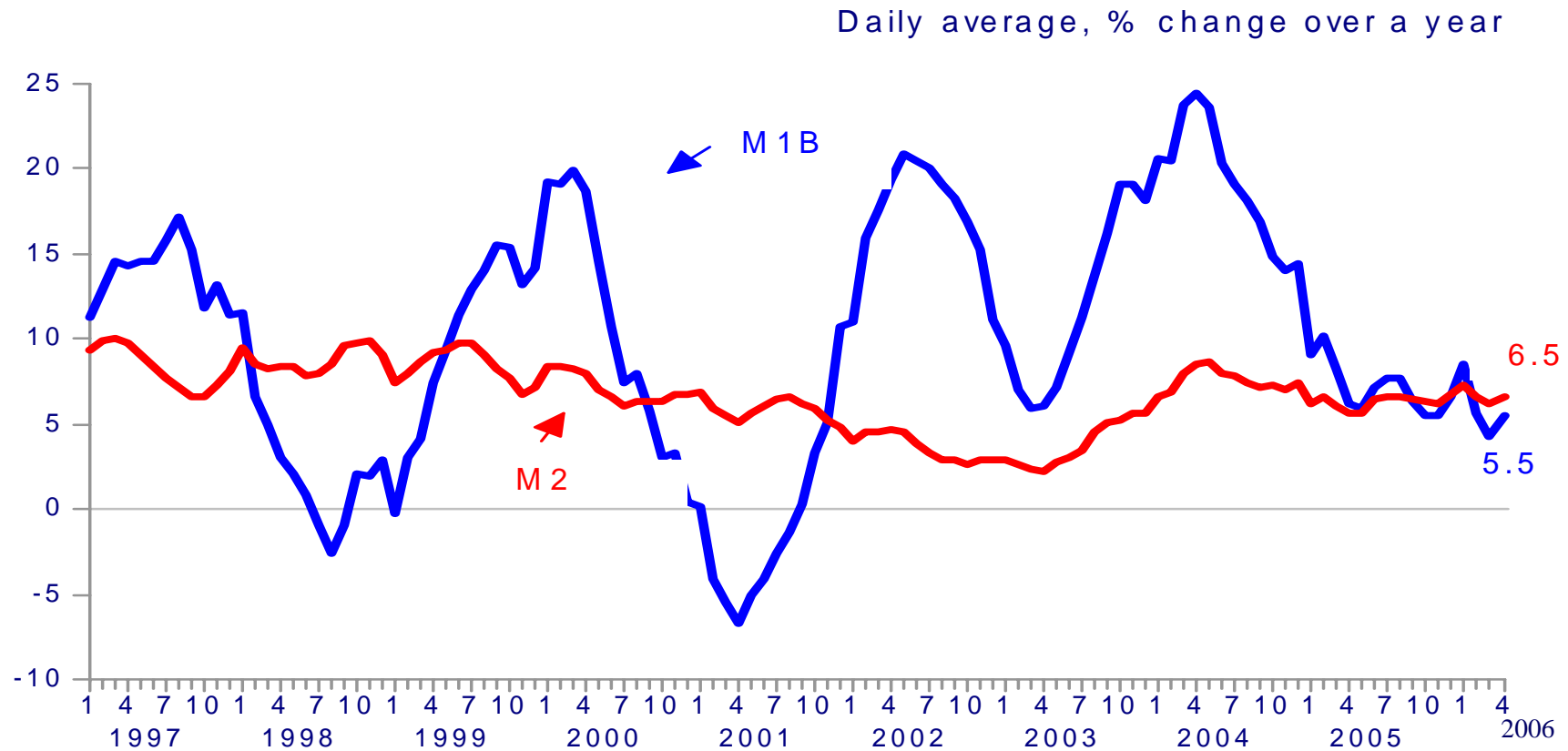


Source: Directorate General of Budget, Accounting, and Statistics.

# CURRENT DOMESTIC SITUATION

## Money Supply

In April 2006, M1B and M2 growth from the previous year recorded 5.5% and 6.5%, respectively. For the first four months, M1B and M2 expanded 5.9% and 6.6%, respectively.

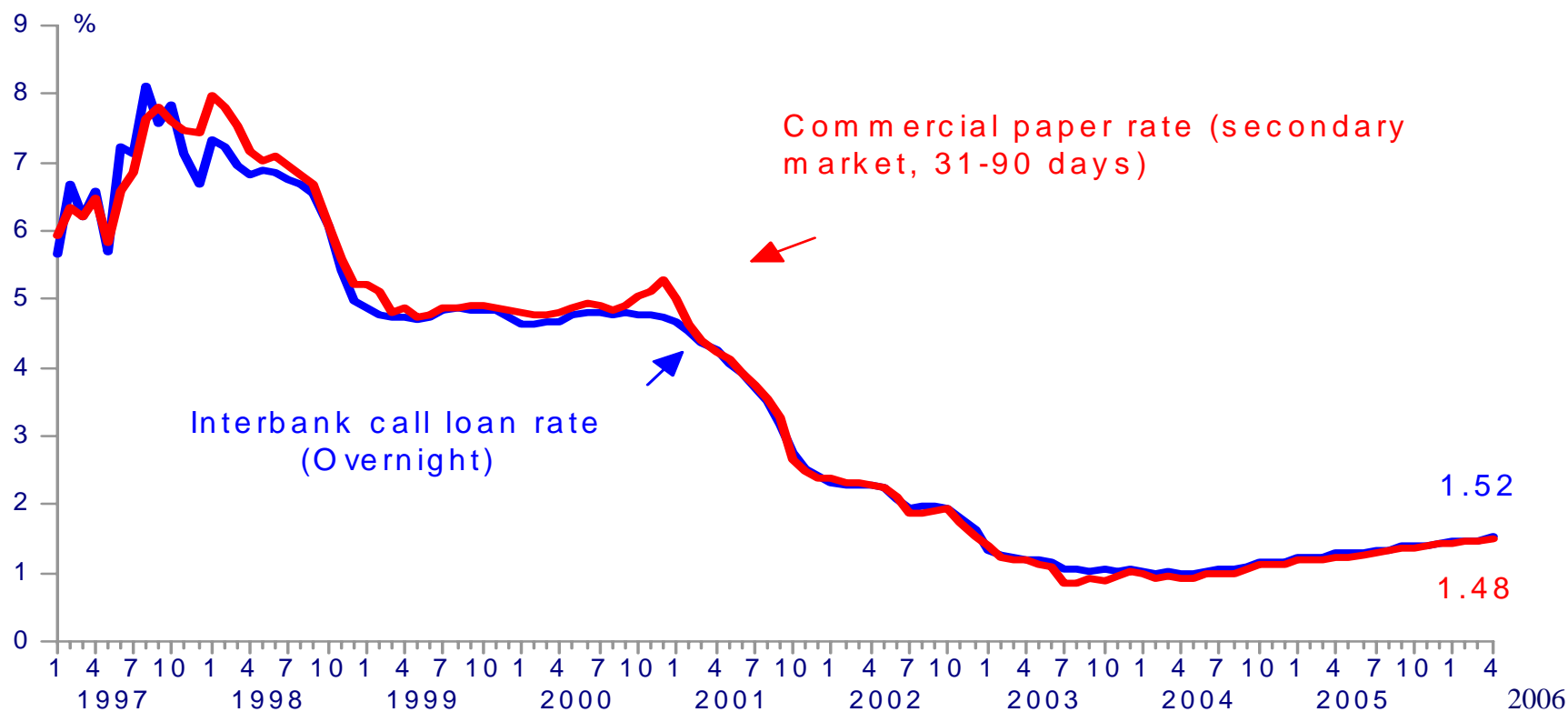


Source: Central Bank of China (Taiwan).

# CURRENT DOMESTIC SITUATION

## Short-term 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 April 2006, commercial paper rate and interbank rate recorded 1.48% and 1.52%, respectively. The Central Bank raised the rediscount rate four times in 2005 from 1.75% to 2.25%, and further to 2.375% in March 2006.



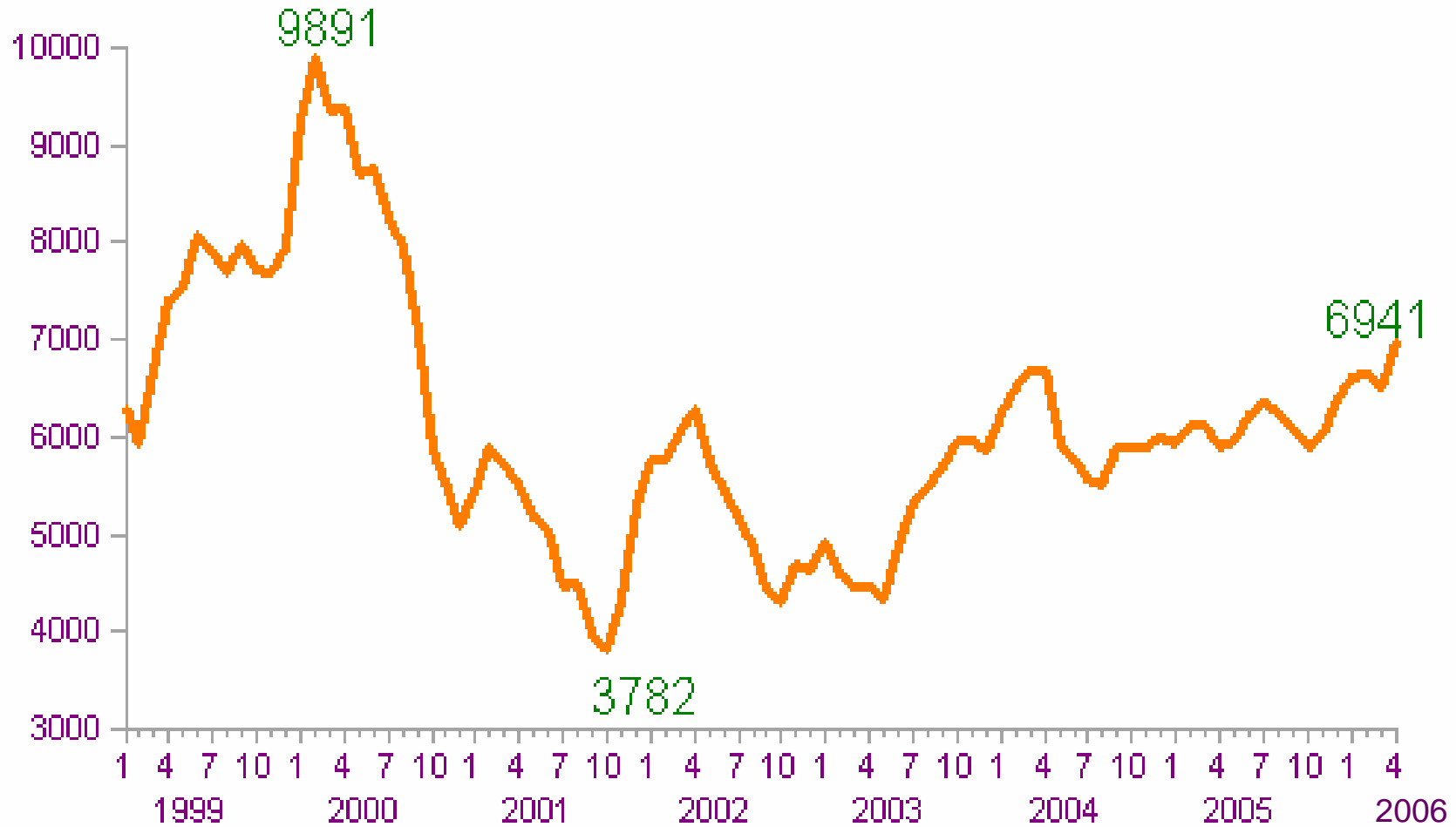
Source: Central Bank of China (Taiwan).

# CURRENT DOMESTIC SITUATION

## Stock Price

### Taiwan Stock Exchange Index

Capitalization weighted, monthly average, 1966 Avg=100



Source: Taiwan Stock Exchange.

# CURRENT DOMESTIC SITUATION

## Monitoring Indicators

The monitoring indicators flashed “yellow-blue” in April 2006, for the first time after eight successive months of “green.” However, the positive movements of most indicators suggest continued steady expansion.

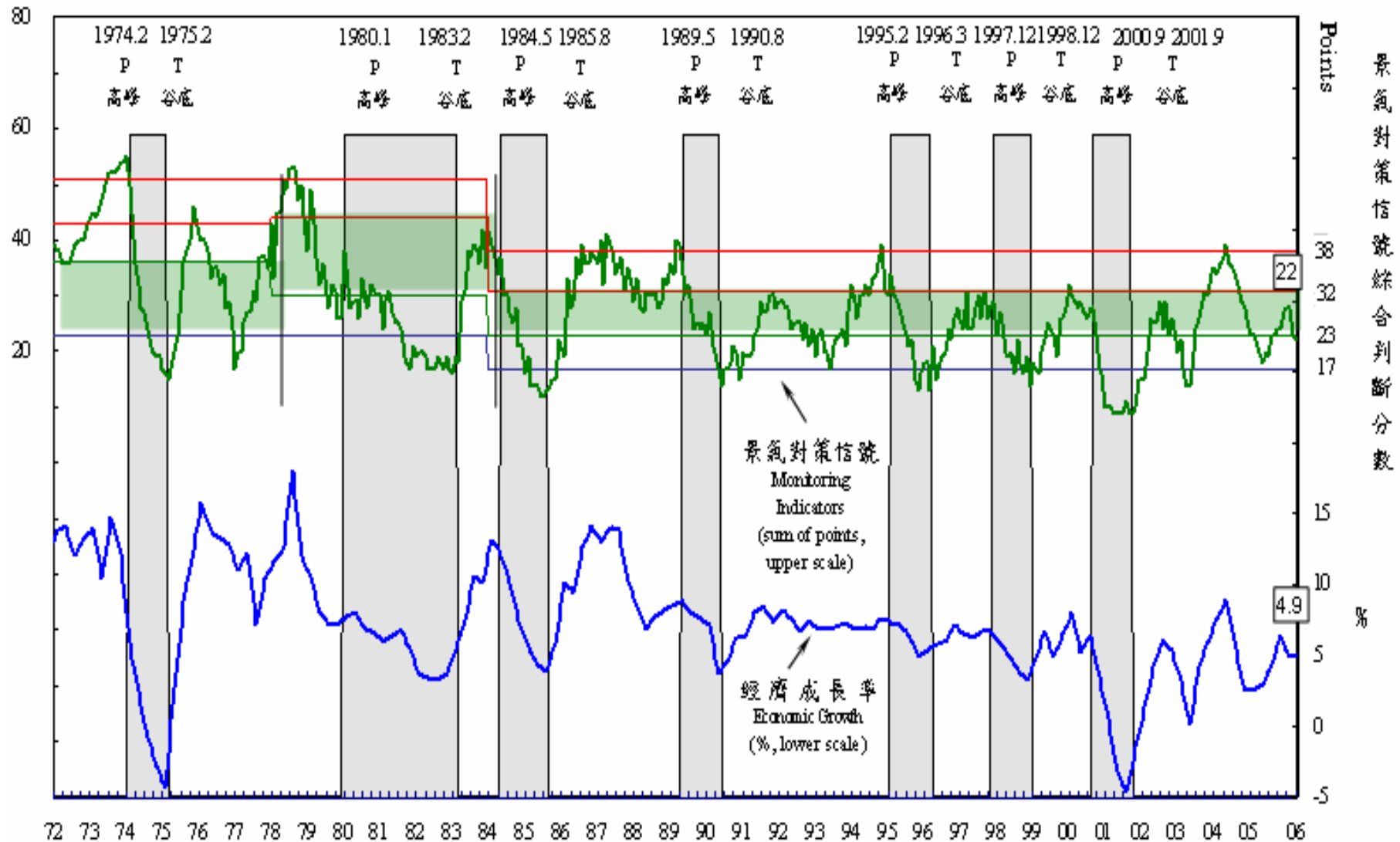
		2005										2006			
		4	5	6	7	8	9	10	11	12	1	2	3	4	
Total Scores															
		20	18	20	19	23	23	24	24	27	28	28	23	22	
Financial Sector	Monetary Aggregates M1B, yoy%														5.6
	Direct and Indirect Finance, yoy%														6.6
	Bank Clearings and Remittance, yoy%														2.5
	Stock Price Index, 1966=100, yoy%														18.1
Real Sector	Manufacturing New Order Index, 1996\$, 1976.1=100, yoy%														3.2 <sub>p</sub>
	Exports, 2001\$, yoy%														11.2
	Industrial Production Index, 2001=100, yoy%														7.1
	Manufacturing Inventory-to-Sales ratio, %														58.9
	Nonagricultural Employment, yoy%														2.0

Overheating 
 Transition in need of watching 
 Steadily moving forward 
 Transition in need of watching 
 Transition in need of watching

Source: Council for Economic Planning and Development.



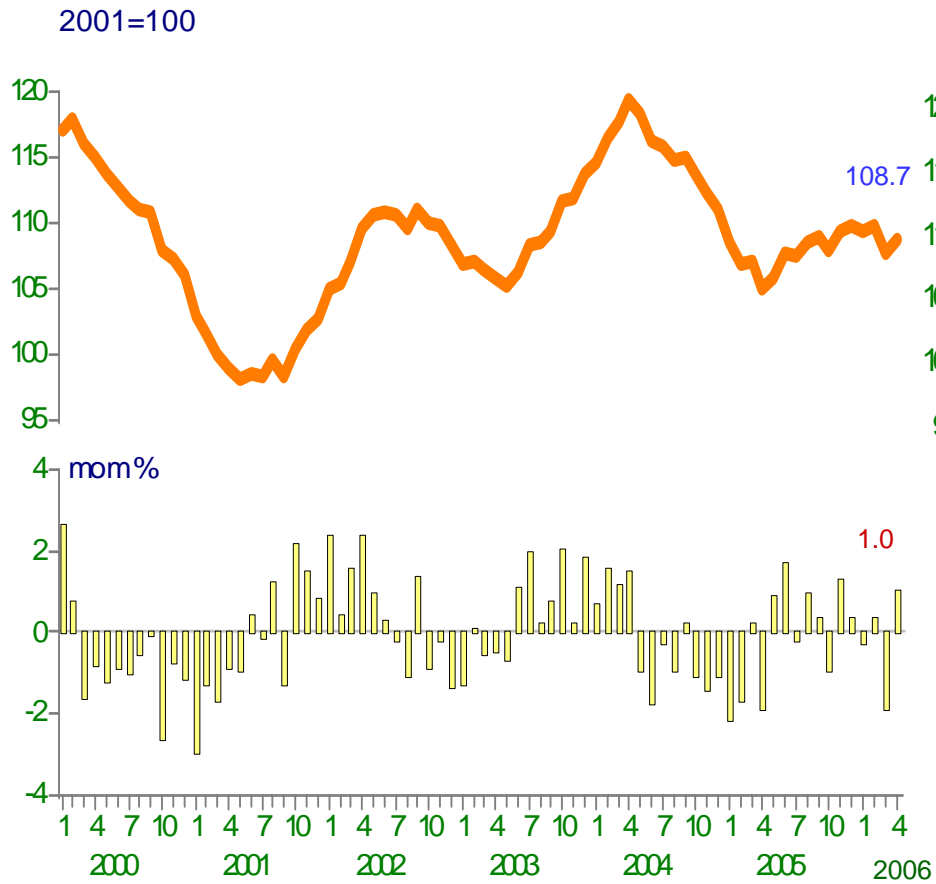
# Monitoring Indicators and Economic Growth



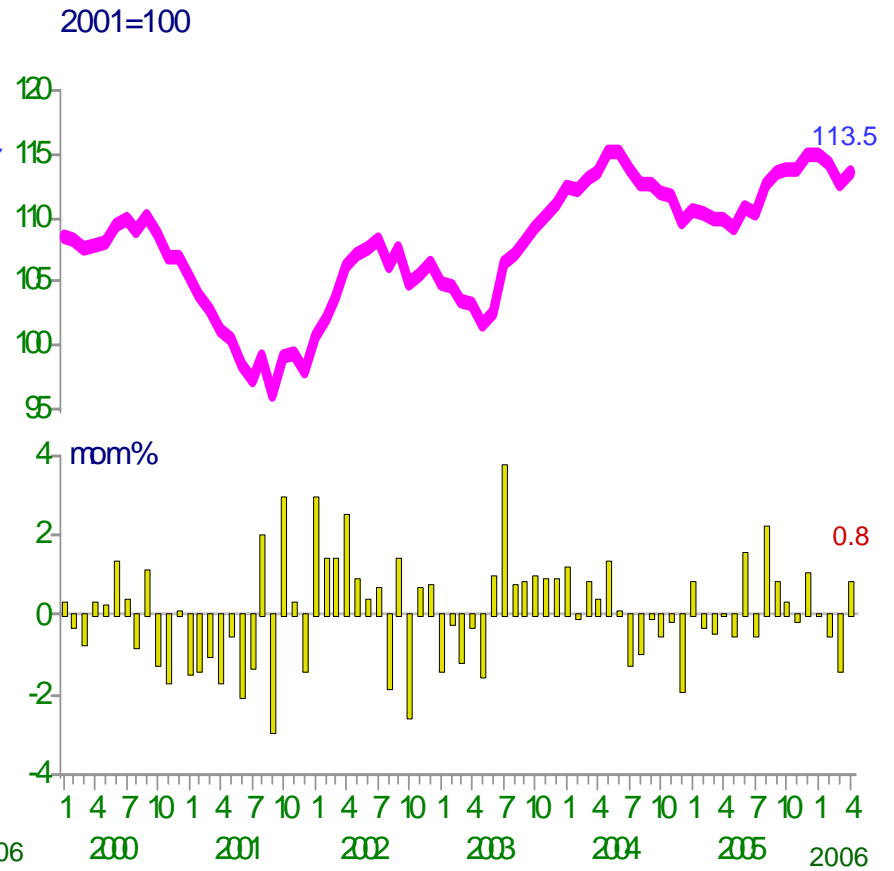
Source: Council for Economic Planning and Development.

# CURRENT DOMESTIC SITUATION

## Composite Leading Index



## Composite Coincident Index



Source: CEPD.

## PROSPECTS

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- ⇒ In 2006, two-way trade is expected to expand in about the same pace as 2005, while private consumption will increase with improving job market. Private investment is estimated to see a more moderate rate of growth. In the public sector, government investment will keep up a positive growth, while public enterprise will undergo a contraction.
- ⇒ Growth in 2006 is forecasted to be around 4% by major domestic research institutions.

# FORECASTS FOR ECONOMIC GROWTH

Forecasting institution	Release time	2005 %	2006 %	Difference from last projection
World Bank	Mar 2006	4.1	4.1	0.0
IMF	Apr 2006	4.5	4.5	+0.2
Global-Insight	Apr 2006	4.1	3.7	0.0
CIER	Apr 2005	4.09	4.17	+0.16
TIER	Apr 2006	4.09	3.91	-0.11
DGBAS	May 2006	4.09	4.31	+0.06
Academia Sinica	Dec 2005	3.83	4.25	-

CIER: Chung-hua Institute for Economic Research, Taipei.

DGBAS: Directorate-General of Budget, Accounting and Statistics, ROC.

TIER: Taiwan Institute of Economic Research, Taipei.

# Macroeconomic Targets

- ⇒ The economy is targeted to grow 4.5% in 2006, with CPI increasing no more than 2.0% and unemployment rate staying below 4%.
- ⇒ Sources of targeted growth mainly come from private consumption and exports.

	<b>Real Growth</b> Target*(Forecast)	<b>Percent of</b> <b>Nominal GDP</b> Target*(Forecast)	<b>Contribution</b> Percentage pt.
GDP	4.5 (4.3)	100.0 (100.0)	4.50
Private consumption	3.8 (2.5)	62.7 (62.8)	2.17
Government consumption	1.1 (0.3)	13.0 (13.1)	0.13
Fixed capital formation	3.8 (2.5)	20.6 (20.3)	0.74
Private	4.8 (3.6)	15.3 (14.8)	0.70
Public enterprises	-1.6 (-1.8)	1.7 (1.8)	0.07
Government	2.3 (0.3)	3.7 (3.7)	-0.03
Exports of goods and services	8.0 (8.1)	66.5 (64.8)	4.90
Less: Imports of goods and services	6.8 (5.7)	62.9 (61.1)	3.50

\*Based on results of the target scenario.

Sources: Council for Economic Planning and Development.

# III. POLICY INITIATIVES

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## ⇒ **Cross-Strait economic and trade relations**

- 1) The preparatory phase of cross-strait direct transportation links is already underway.
- 2) "Measures on cross-Strait freight facilitation" are to be announced at appropriate time.
- 3) The government is closely monitoring China's macroeconomic measures and their impact on the Chinese and Taiwanese economies.
- 4) "Proactive management and effective liberalization," proclaimed by the President in January, represents the new mindset and course of action for our future cross-Strait economic and trade policies.

# POLICY INITIATIVES

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## ⇒ Fiscal reform

- 1) The government has drawn up plans for achieving a balanced budget within five to ten years.
- 2) A State-owned Property Management Committee has been formed to consolidate the management of state-owned properties to help increase government revenues.
- 3) The program to end exemptions from personal income tax of military personnel and elementary and junior high school teachers will be proceeded further.
- 4) Implement the alternative minimum tax to achieve equality of taxation while tending industrial development.
- 5) Tax exemptions and deductions of the income tax and Statute for Industrial Upgrading are being reviewed with a purpose to increasing equality, reasonability and simplicity.
- 6) Business tax will be raised to make up for revenue loss resultant from eliminations of taxable items in commodity tax and entertainment tax, and from the abolition of the stamp tax.

# POLICY INITIATIVES

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⇒ **Financial reform** Developing Taiwan as a regional financial services center

## **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



# POLICY INITIATIVES

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## ⇒ **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, logistics/distribution/transportation, medical care, manpower training, tourism, cultural and creative, design, information, property management, R&D, environmental protection, and engineering consultancy.

## ⇒ **Measures to augment scientific and technological manpower**

Develop industrial S&T manpower with relevant graduate programs and vocational training programs, and recruit overseas professional manpower for work in Taiwan.

# Services Targeted for Development

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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

# 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.

# POLICY INITIATIVES

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⇒ **Stimulus package** In November 2005, a wide-ranging list of revitalization efforts has been announced:

✓ Revitalizing traditional industries

- In addition to an NT\$90 billion program, lasting during 2001 and 2006, to provide industrial land and buildings for lease, another NT\$30 billion will be set aside for 2007-2009, which is anticipated to attract 305 firms and increase investment and production by NT\$107 billion and NT\$128.4 billion, respectively, and create 21,352 jobs.
- The Medium- and Long-term Fund will appropriate a credit line of NT\$200 billion, for the procurement of software and hardware or industrial land, R&D investment by overseas Taiwanese businessmen for their investment projects in Taiwan. Loaners will bear a low interest rate of 1.97%, plus no more than 1.5 percentage points charged by banks.

# POLICY INITIATIVES

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## ⇒ **Stimulus package** (continued)

### ✓ Revitalizing traditional industries

- An amount of NT\$8.5 billion appropriated by the Development Fund will be provided to prospective investors for procurement of industrial land, in exchange of their shares. The measure is expected to attract 30 companies to invest in the industrial zones, involving investment capital of NT\$30 billion and production worth of NT\$36 billion.
- Measures have been adopted to increase local laborer employment, lessen occupational injuries, improve work effectiveness, and improve shortages in the so-called “difficult” industries, where working conditions are dirty, dangerous and generally “difficult”.

# POLICY INITIATIVES

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## ⇒ Stimulus package (continued)

### ✓ Improving living conditions

- The government will provide farmers with subsidies of NT\$45,000 per hectare and a NT\$15,000 subsidy on their production expenses, with the goal of seeing farmland growing biomass energy crops. It is estimated that the income of fallow farmers will increase by NT\$18,000 per hectare.
- A sum of NT\$200 billion low-interest loans will be provided for urban renewal programs between 2006 and 2008, which the Cabinet estimates will generate NT\$500 billion in production value and provide 130,000 new job opportunities.
- The Cabinet is planning to promote industries with local tribal characteristics and designate at least 15 tourism locations as “aboriginal tribe attractions.” In addition, it has earmarked an NT\$6.12 billion budget to enhance employment among aborigines, which is expected to create some 3,000 jobs, increase their average income by NT\$30,000 to NT\$50,000 per person per month, and provide vocational training to more than 4,000 people every year.

# POLICY INITIATIVES

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## ⇒ Stimulus package (continued)

- ✓ Improving living conditions
  - The standard income tax deduction will be increased for married couples beginning 2005 tax year and general exemptions and deductions will be adjusted for inflation for the 2006 tax year. The step is expected to lessen burden on taxpayers by NT\$19,000 per household and boost domestic private disposable income by NT\$4 billion.
  - Exemptions and deductions for inheritance and gift taxes beginning January 1, 2006 will lessen burden from these two taxes by NT\$590,000 and NT\$13,000, respectively, per case on average.
  - The futures transaction statute will be revised in order to reduce taxes on futures transactions, including cuts of 60% for securities futures and 20% for securities options or commodities futures contracts.
  - Lunar New Year cross-strait charter routes for 2006 were extended to Xiamen, and was opened to anyone who possesses valid visas for Taiwan and China. Total flights were expected to increase from 48 to 72, offering 30,000 seats and allowing passengers to save between 1.5 to 4.5 hours and NT\$2,000 to NT\$5,000. The government will continue to urge the mainland side to engage in consultations for regular flights to expedite air cargo shipments and to promote tourism.

# POLICY INITIATIVES

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

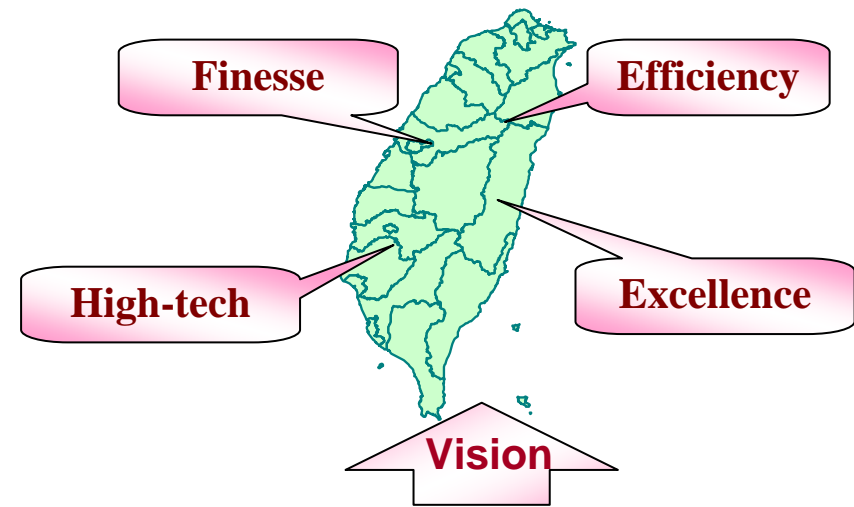
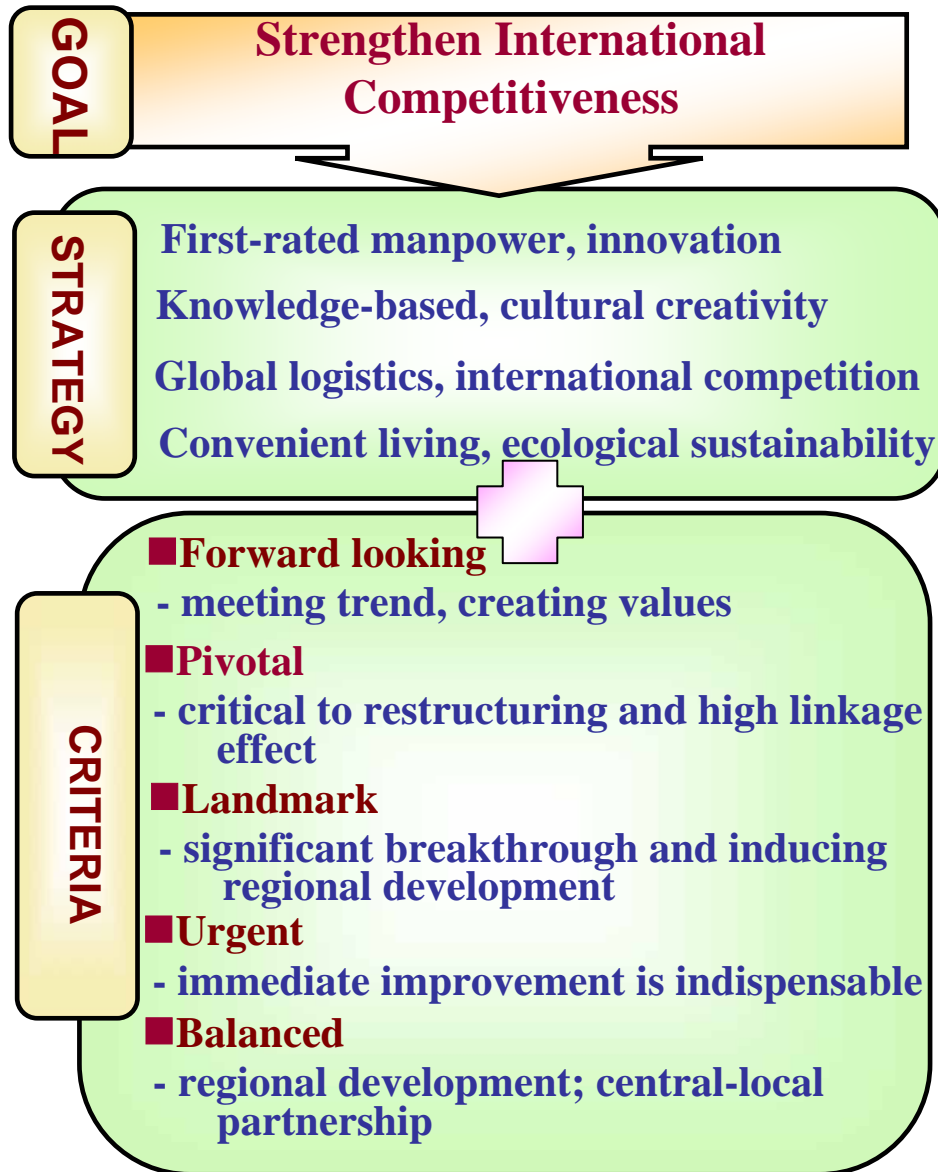
- ⇒ The comprehensive plan is designed to foster economic, science, technology and education, environmental, social, and institutional development.
- ⇒ The vision of a "green silicon island," as proposed in the previous medium-term plan, is reiterated, and will be pursued while meeting new challenges 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 semiconductor, image display, digital content, and biotech, while keeping up the development of communications, petrochemical, machinery and equipment, and iron and steel.
  - 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%.



# Medium-term National Development Targets

2005	Targets	2006	2008
4.1%	Growth of potential Economic growth GDP	4.5%	4.9%
1.6%	Employment increase	1.1%	1.4%
4.1%	Unemployment rate	< 4.0%	4.0%
2.3%	CPI increase	< 2.0%	New Century Manpower Plan

# The New Ten Projects



- 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

### **Expand tax collection**

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

# Thank you

This summary is prepared by the Department of Economic Research of the Council for Economic Planning and Development (CEPD). Monthly updates can be found on the CEPD's website at <http://www.cepd.gov.tw/encontent/index.jsp>. For inquiries call 886-2-2316-5681 or send an e-mail to [chyn@cepd.gov.tw](mailto:chyn@cepd.gov.tw).