

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development
Executive Yuan

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I. CURRENT DOMESTIC SITUATION

Economic Growth

- ⇒ Despite the weakness of private consumption, Taiwan's real GDP grew 4.3% in the second quarter of 2008, thanks to export growth remaining quite robust.
- ⇒ Despite lingering gloom in the global economic outlook, Taiwan's economy is forecast to grow 5.1% in 2009, contributed mainly by improving private consumption and the resilient export growth attributable to closer economic ties with China and stable demand from other emerging economies.

Real GDP Growth (Change from a year ago)

| | Economic growth | 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 | | | | |
| 2003 | 3.5 | 1.8 | 1.5 | 0.6 | 1.7 | 3.7 | -3.9 | -1.3 | - | - | 10.4 | 8.1 |
| 2004 | 6.2 | 7.7 | 4.5 | -0.5 | 19.5 | 33.1 | -18.2 | -5.8 | - | - | 14.4 | 18.9 |
| 2005 | 4.2 | 1.7 | 3.0 | 1.1 | 1.2 | 0.3 | 16.2 | -1.8 | - | - | 7.6 | 3.8 |
| 2006 | 4.9 | 1.2 | 1.8 | -0.4 | 0.6 | 3.0 | -7.5 | -6.2 | - | - | 10.4 | 5.2 |
| 2007 | 5.7 | 2.1 | 2.6 | 0.8 | 2.4 | 3.3 | 3.7 | -3.7 | - | - | 8.8 | 3.7 |
| 2008f | 4.3 | 1.6 | 1.4 | 1.7 | 1.6 | 0.1 | 3.3 | 9.3 | - | - | 5.1 | 1.0 |
| Q1r | 6.3 | 3.5 | 2.0 | 1.7 | 4.4 | 5.0 | 4.1 | 0.7 | - | - | 11.8 | 8.9 |
| Q2p | 4.3 | -1.7 | 1.1 | -0.8 | -7.7 | -9.4 | -0.4 | -0.0 | - | - | 9.2 | 1.1 |
| Q3f | 3.0 | 0.8 | 0.9 | 2.1 | -0.1 | -2.3 | 0.6 | 12.4 | - | - | 0.3 | -3.9 |
| Q4f | 3.8 | 3.9 | 1.5 | 3.7 | 9.9 | 8.6 | 6.8 | 17.9 | - | - | 0.1 | -1.1 |
| 2009f | 5.1 | 3.2 | 2.9 | 1.8 | 4.5 | 6.7 | 2.6 | -5.7 | - | - | 6.2 | 3.6 |

P = Preliminary; f = Forecast; r = Revised.

Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), August 2008

CURRENT DOMESTIC SITUATION

Contributions to GDP 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 | Sub-total | Private sector | Public enterprises | Gov't | | | | |
| 2003 | 3.5 | 1.7 | 0.9 | 0.1 | 0.3 | 0.5 | -0.1 | -0.1 | 0.4 | 1.8 | 5.5 | 3.7 |
| 2004 | 6.2 | 7.1 | 2.7 | -0.1 | 3.6 | 4.2 | -0.4 | -0.2 | 0.9 | -0.9 | 8.2 | 9.1 |
| 2005 | 4.2 | 1.5 | 1.8 | 0.1 | 0.3 | 0.05 | 0.3 | -0.06 | -0.6 | 2.6 | 4.7 | 2.0 |
| 2006 | 4.9 | 1.1 | 1.0 | -0.05 | 0.1 | 0.5 | -0.1 | -0.2 | 0.01 | 3.8 | 6.6 | 2.8 |
| 2007 | 5.7 | 1.8 | 1.4 | 0.1 | 0.5 | 0.5 | 0.1 | -0.1 | -0.2 | 3.9 | 5.9 | 2.0 |
| 2008 _f | 4.3 | 1.4 | 0.8 | 0.2 | 0.3 | 0.0 | 0.1 | 0.2 | 0.1 | 2.9 | 3.5 | 0.5 |
| Q1 _r | 6.3 | 3.0 | 1.2 | 0.2 | 0.7 | 0.6 | 0.1 | 0.0 | 0.9 | 3.3 | 7.7 | 4.5 |
| Q2 _p | 4.3 | -1.5 | 0.6 | -0.1 | -1.6 | -1.6 | -0.0 | 0.0 | -0.4 | 5.8 | 6.4 | 0.6 |
| Q3 _f | 3.0 | 0.7 | 0.5 | 0.2 | -0.0 | -0.4 | 0.0 | 0.3 | 0.0 | 2.3 | 0.2 | -2.1 |
| Q4 _f | 3.8 | 3.1 | 0.8 | 0.4 | 1.9 | 1.2 | 0.1 | 0.6 | 0.1 | 0.6 | 0.1 | -0.6 |
| 2009 _f | 5.1 | 2.7 | 1.6 | 0.2 | 0.8 | 0.9 | 0.0 | -0.2 | 0.1 | 2.4 | 4.3 | 1.9 |

P = Preliminary; f = Forecast; r = Revised.

Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), August 2008

CURRENT DOMESTIC SITUATION

Domestic Investment

- ⇒ In the second quarter of 2008, private fixed investment fell 9.4%, due mainly to a 12.7% decline in the import of capital equipment.
- ⇒ In the second half of 2008, investment is expected to rebound, with a 15.4% increase in government fixed investment.
- ⇒ For 2008 as a whole, gross fixed capital formation is forecast to grow 1.6%.

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

NT\$ billion; yoy %

| | Total | | Private investment | | Public enterprise investment | | Government investment | |
|-------------------------|----------------|-------------|--------------------|-------------|------------------------------|-------------|-----------------------|-------------|
| | Amount | Growth rate | Amount | Growth rate | Amount | Growth rate | Amount | Growth rate |
| 2003 | 1,957.7 | 1.7 | 1,335.9 | 3.7 | 219.2 | -3.9 | 402.6 | -1.3 |
| 2004 | 2,420.2 | 19.5 | 1,826.8 | 33.1 | 181.6 | -18.2 | 411.8 | -5.8 |
| 2005 | 2,438.4 | 1.2 | 1,817.2 | 0.3 | 205.2 | 16.2 | 416.1 | -3.2 |
| 2006 | 2,517.6 | 0.6 | 1,917.8 | 3.0 | 190.7 | -7.5 | 409.1 | -6.2 |
| 2007 | 2,666.5 | 2.4 | 2,044.8 | 3.3 | 205.0 | 3.7 | 416.7 | -3.7 |
| 2008_f | 2,817.3 | 1.6 | 2,106.6 | 0.1 | 215.7 | 3.3 | 494.9 | 9.3 |
| Q1 _r | 620.4 | 4.4 | 488.0 | 5.0 | 46.3 | 4.1 | 86.1 | 0.7 |
| Q2 _p | 675.0 | -7.7 | 526.4 | -9.4 | 42.5 | -0.4 | 106.1 | -0.0 |
| Q3 _f | 717.1 | -0.1 | 532.0 | -2.3 | 49.9 | 0.6 | 135.2 | 12.4 |
| Q4 _f | 804.7 | 9.9 | 560.2 | 8.6 | 77.0 | 6.8 | 167.5 | 17.9 |
| 2009_f | 2,965.3 | 4.5 | 2,268.1 | 6.7 | 222.5 | 2.6 | 474.6 | -5.7 |

F = Forecast. P = Preliminary. R = Revised.

Source: DGBAS

CURRENT DOMESTIC SITUATION

Foreign Trade

- ⇒ Exports and imports expanded 16.5% and 20.7%, respectively, in the first seven months of 2008.
- ⇒ A trade surplus of US\$7.6 billion was recorded during January~July 2008, down US\$3.4 billion year on year.

Foreign Trade

US\$ billion; yoy %

| | Trade | | Exports | | Imports | | Balance |
|---------------------|--------------|-------------|--------------|-------------|--------------|-------------|------------|
| | Value | Growth | Value | Growth | Value | Growth | |
| 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 |
| 2006 | 426.7 | 12.0 | 224.0 | 12.9 | 202.7 | 11.0 | 21.3 |
| 2007 | 466.1 | 9.2 | 246.7 | 10.1 | 219.3 | 8.2 | 27.4 |
| 2008 Jan-Jul | 307.2 | 18.5 | 157.4 | 16.5 | 149.8 | 20.7 | 7.6 |

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 “re-imports.”
Source: Ministry of Finance.

CURRENT DOMESTIC SITUATION

Major trade partners

- ⇒ China (including Hong Kong) and ASEAN have become increasingly important trade partners to Taiwan since 2000, though trade with these two regions has grown more slowly in the last three years. Japan has remained Taiwan's largest supplier of imports, despite a narrowing share.
- ⇒ Export shares of the United States, Europe and Japan have narrowed as those of China (including Hong Kong) and ASEAN have increased.

Changes in Two-way Trade with Major Trading Partners

| | Exports | | | | | Imports | | | | | yoy % |
|-------------|---------|-------|--------|-------------------------|----------|---------|-------|-------------|-------------------------|----------|-------|
| | USA | Japan | Europe | China (incl. Hong Kong) | ASEAN 6* | USA | Japan | Middle East | China (incl. Hong Kong) | ASEAN 6* | |
| 2001 | -20.9 | -22.9 | -16.3 | -9.5 | -19.1 | -27.2 | -32.9 | -2.0 | -7.4 | -20.9 | |
| Share | 22.3 | 10.3 | 15.8 | 26.6 | 11.9 | 17.0 | 24.0 | 6.1 | 7.4 | 14.9 | |
| 2002 | -2.7 | -5.0 | -5.9 | 29.4 | 7.4 | -0.8 | 5.5 | 9.8 | 24.2 | 3.7 | |
| 2003 | -3.0 | 0.5 | 10.4 | 23.6 | 10.5 | -6.9 | 19.6 | 43.7 | 30.9 | 5.2 | |
| 2004 | 8.3 | 11.1 | 14.7 | 28.8 | 33.0 | 28.2 | 33.6 | 34.6 | 47.7 | 16.2 | |
| 2005 | 1.3 | 9.4 | -0.7 | 12.2 | 13.8 | -2.8 | 5.3 | 36.5 | 16.2 | 3.8 | |
| 2006 | 11.2 | 7.9 | 10.6 | 14.8 | 13.8 | 7.1 | 0.5 | 30.1 | 20.1 | 10.4 | |
| 2007 | -0.9 | -2.2 | 9.7 | 12.6 | 16.7 | 17.0 | -0.7 | 12.0 | 11.9 | 1.7 | |
| 2008Jan-Jul | -1.7 | 9.6 | 12.3 | 18.9 | 24.0 | 11.9 | 11.2 | 66.7 | 19.7 | 14.3 | |
| Share | 11.4 | 6.4 | 11.5 | 40.6 | 15.0 | 11.3 | 19.5 | 16.4 | 13.4 | 10.2 | |

*ASEAN 6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Source: Ministry of Finance.

CURRENT DOMESTIC SITUATION

Production

⇒ Industrial production grew 8.1% in the first seven months of 2008, with manufacturing output increasing 8.8%.

Growth of Industrial Production Index

yoy %

| | Total | Mining | Manufacturing | Electricity and gas | Water | Construction |
|-------------------------|------------|------------|---------------|---------------------|-------------|--------------|
| 2001 | -8.4 | 0.8 | -9.0 | 0.7 | 2.2 | -11.2 |
| 2002 | 7.1 | 8.5 | 8.5 | 4.8 | -5.2 | -20.7 |
| 2003 | 8.7 | -7.1 | 9.2 | 4.3 | 2.2 | 9.0 |
| 2004 | 8.4 | -3.9 | 9.0 | 3.3 | -0.3 | 4.8 |
| 2005 | 3.8 | -9.4 | 3.7 | 4.3 | 0.6 | 11.4 |
| 2006 | 4.7 | -5.0 | 4.5 | 2.3 | 2.8 | 9.0 |
| 2007 | 7.8 | -17.0 | 8.3 | 3.0 | 0.3 | -0.5 |
| 2008 Jan-Jul | 8.1 | 6.5 | 8.8 | 0.6 | -0.9 | -5.6 |

Source: Ministry of Economic Affairs.

CURRENT DOMESTIC SITUATION

Unemployment rate and labor force participation rate

- ⇒ The unemployment rate rose by 0.1 of a percentage point in July to 4.1%, while the seasonally adjusted unemployment rate also rose by 0.03 of a percentage point to 3.9%.
- ⇒ The labor force participation rate increased by 0.1 of a percentage point in July to 58.4%, though it was down by 0.06 of percentage point year on year.

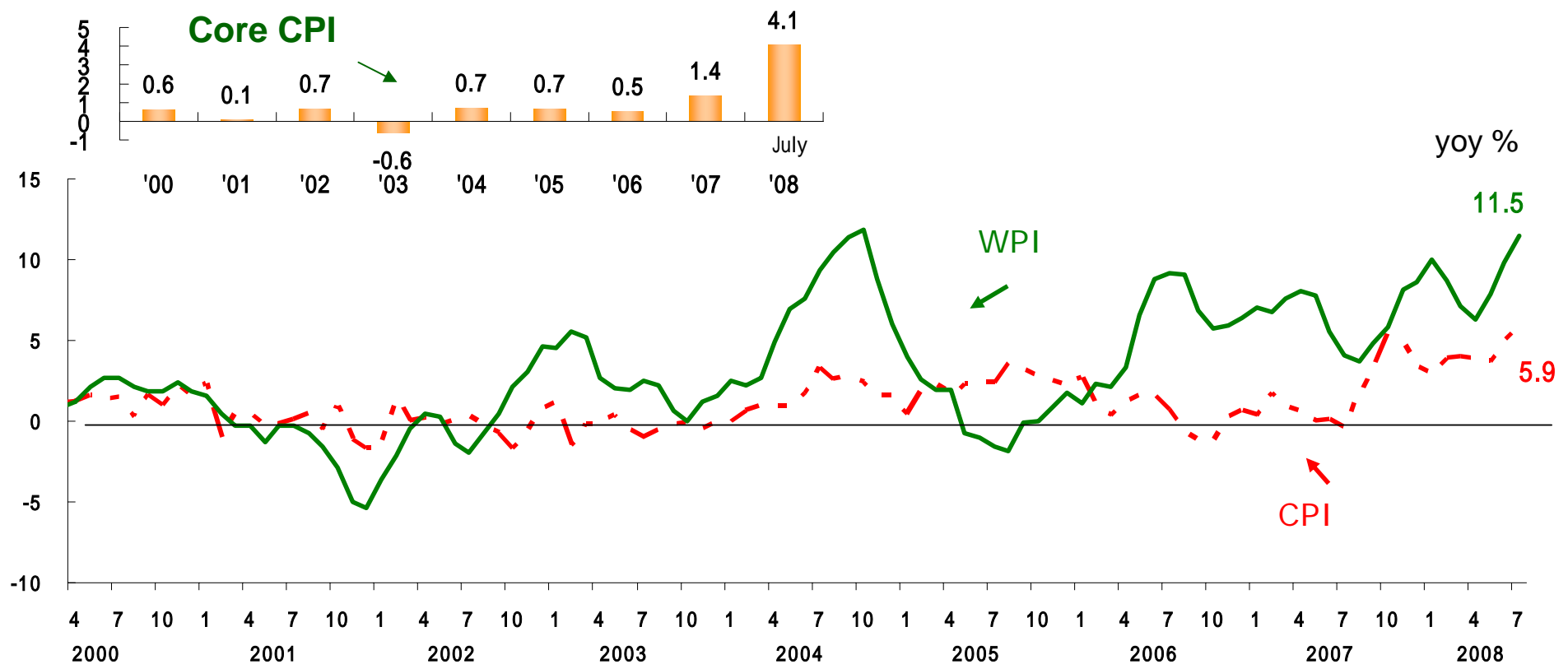


Source: Directorate-General of Budget, Accounting and Statistics.

CURRENT DOMESTIC SITUATION

Prices

- ⇒ In July 2008, the CPI showed a rise of 5.9% year on year, with increased prices of food and fuels & lubricants. Core prices (excluding fresh food and energy prices) climbed 4.1%.
- ⇒ Also in July 2008, the WPI showed an increase of 11.5% year on year, due mainly to the rising prices of crude petroleum, natural gas, petroleum & coal products, and basic metals.

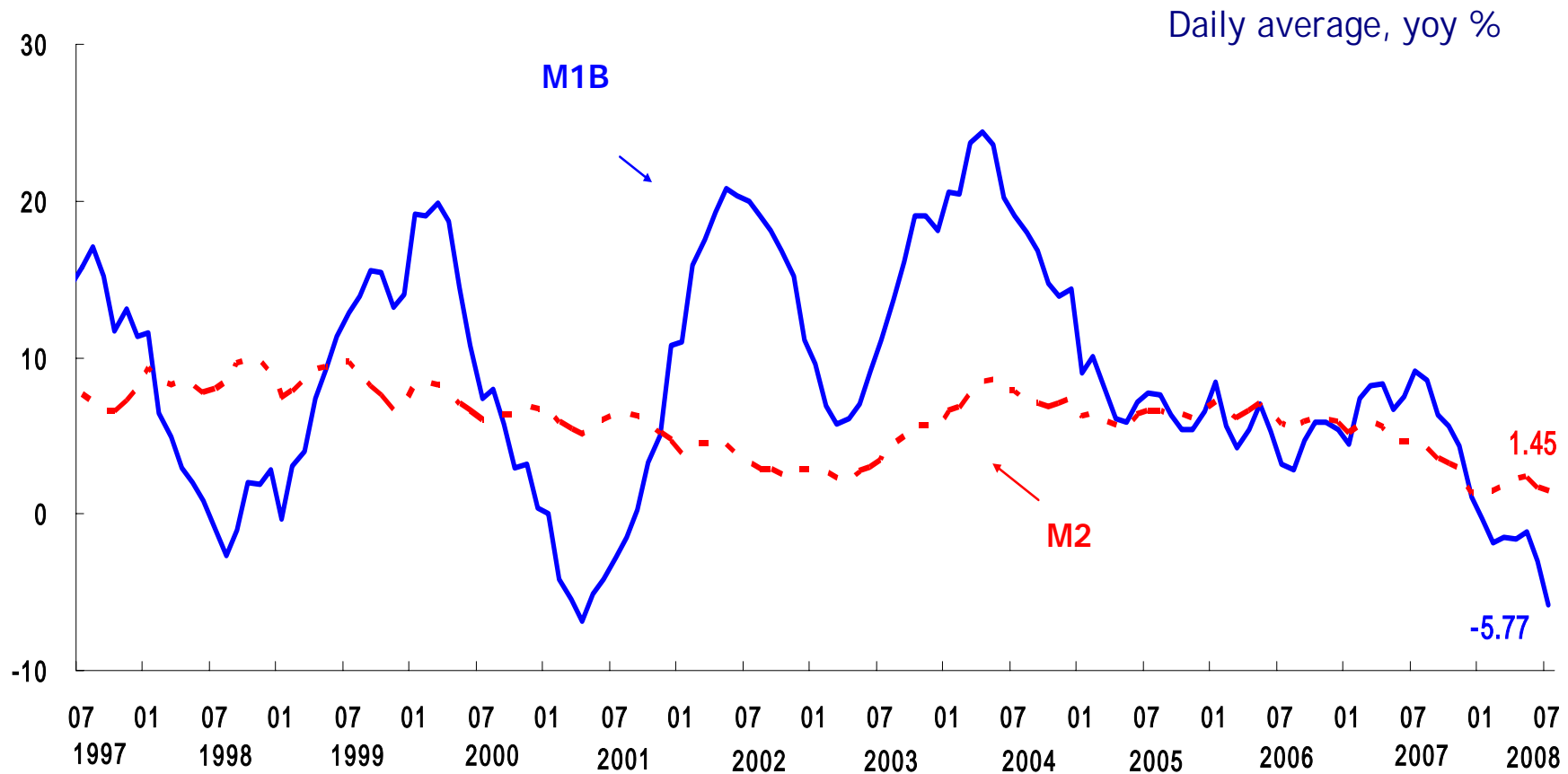


Source: Directorate-General of Budget, Accounting and Statistics.

CURRENT DOMESTIC SITUATION

Money Supply

⇒ In July 2008, M1B continued its downward trend to a year-on-year decline of 5.8%, while M2 grew 1.5%.



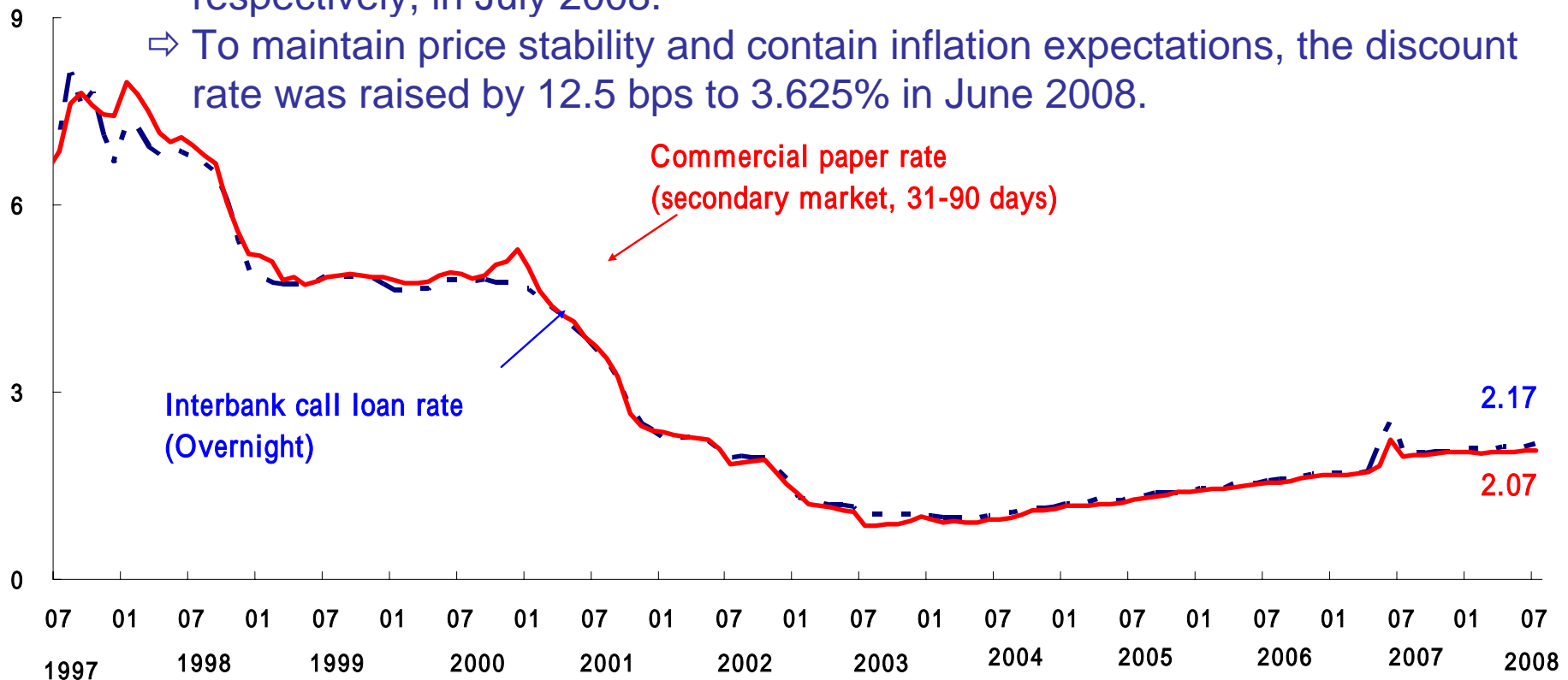
Source: Central Bank of China (Taiwan).

CURRENT DOMESTIC SITUATION

Short-term Interest Rates

⇒ Since the second half of 2003, both long-term and short-term market interest rates have trended up, as tight funding conditions prompted banks to adopt a cautious attitude towards lending operations. The commercial paper rate and interbank rate stood at 2.07% and 2.17%, respectively, in July 2008.

⇒ To maintain price stability and contain inflation expectations, the discount rate was raised by 12.5 bps to 3.625% in June 2008.

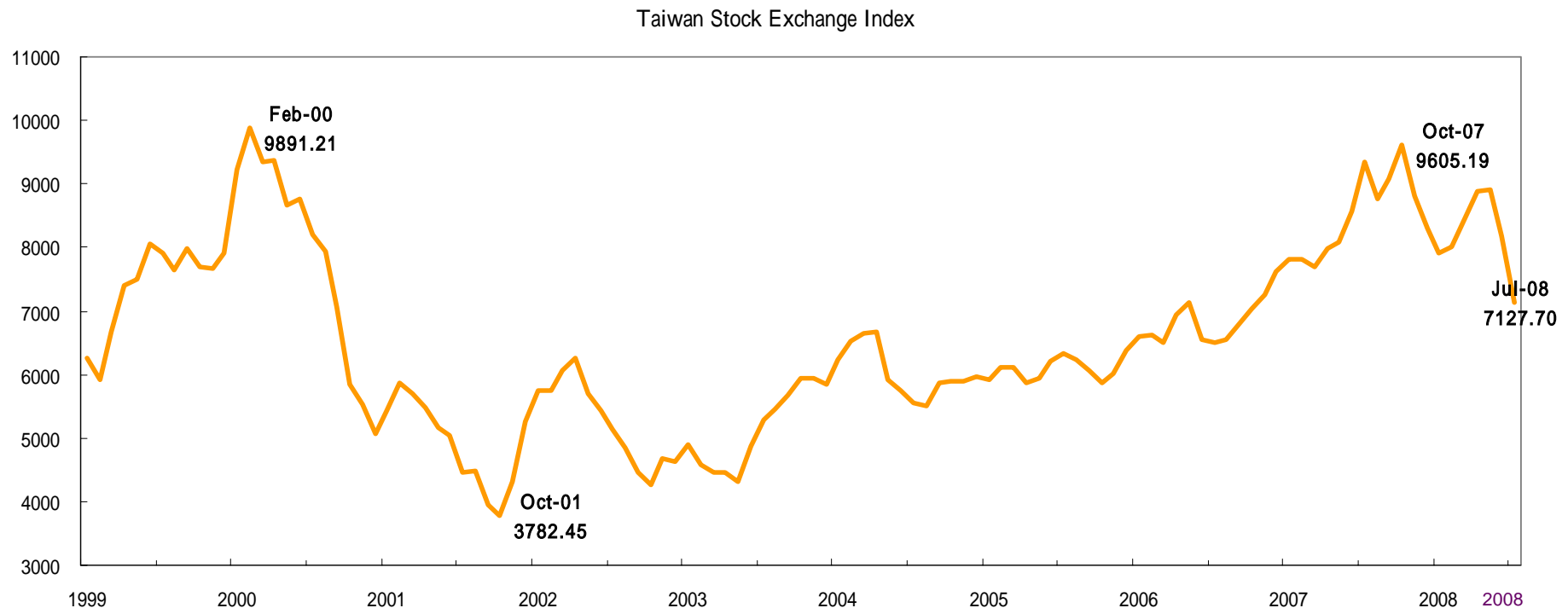


Source: Central Bank of China (Taiwan).

CURRENT DOMESTIC SITUATION

Stock Price

- ⇒ The stock exchange index plunged to 3,782 points in October 2001 in the wake of the 911 terrorist attacks in the US and the downturn in the information and communications industries, before bouncing back to an increasingly positive trend.
- ⇒ The index climbed to 9,605 points in October 2007, but has dropped sharply to 7,121 points in July, down by 23.8% year on year.



Source: Taiwan Stock Exchange.

CURRENT DOMESTIC SITUATION

Monitoring Indicators

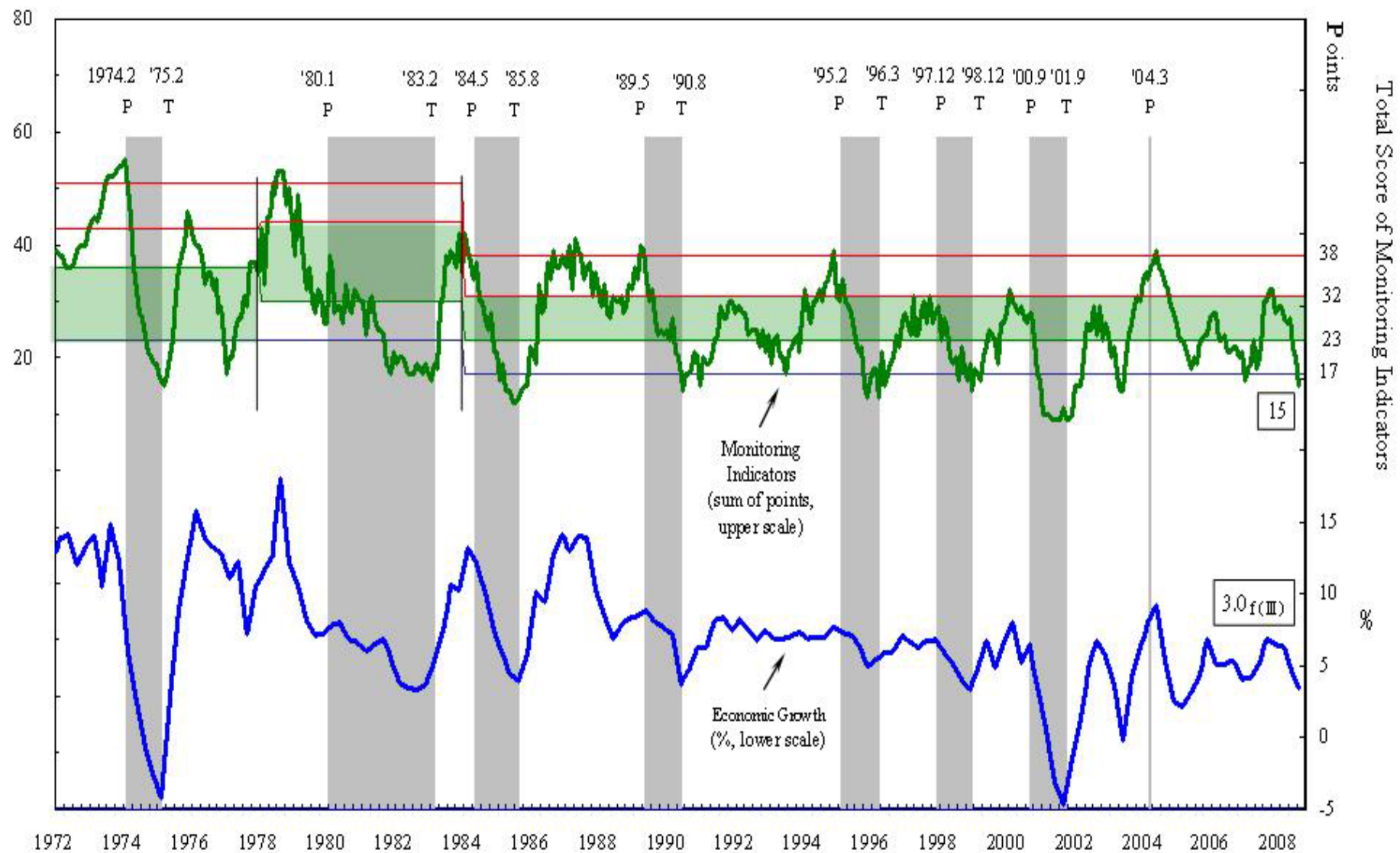
The overall monitoring indicator has flashed the first "blue" in 20 months since December 2006, displaying some signs of weakness in Taiwan's economic situation.

| | | 2007 | | | | | | 2008 | | | | | | |
|---|-------|------|----|----|----|----|----|------|----|----|----|----|----|------------------|
| | | 7 | 8 | 9 | 10 | 11 | 12 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Total | Light | | | | | | | | | | | | | |
| | Score | 30 | 30 | 32 | 32 | 28 | 29 | 29 | 27 | 26 | 27 | 22 | 20 | 15 |
| Monetary Aggregates M1B | | | | | | | | | | | | | | -5.7 |
| Direct and Indirect Finance | | | | | | | | | | | | | | 3.1 |
| Stock Price Index | | | | | | | | | | | | | | -23.8 |
| Industrial Production Index | | | | | | | | | | | | | | -0.4 |
| Nonagricultural Employment | | | | | | | | | | | | | | 1.3 |
| Exports | | | | | | | | | | | | | | 1.3 |
| Imports of Machinery and Electrical Equipment | | | | | | | | | | | | | | -12.5 |
| Manufacturing Sales | | | | | | | | | | | | | | 5.7 _T |
| Wholesale, Retail and Food Services Sales | | | | | | | | | | | | | | -5.2 |

Booming
 Transitional
 Stable
 Transitional
 Sluggish

*Components are in terms of percentage changes over 1-year span. All components, except stock price index, have been seasonally adjusted.

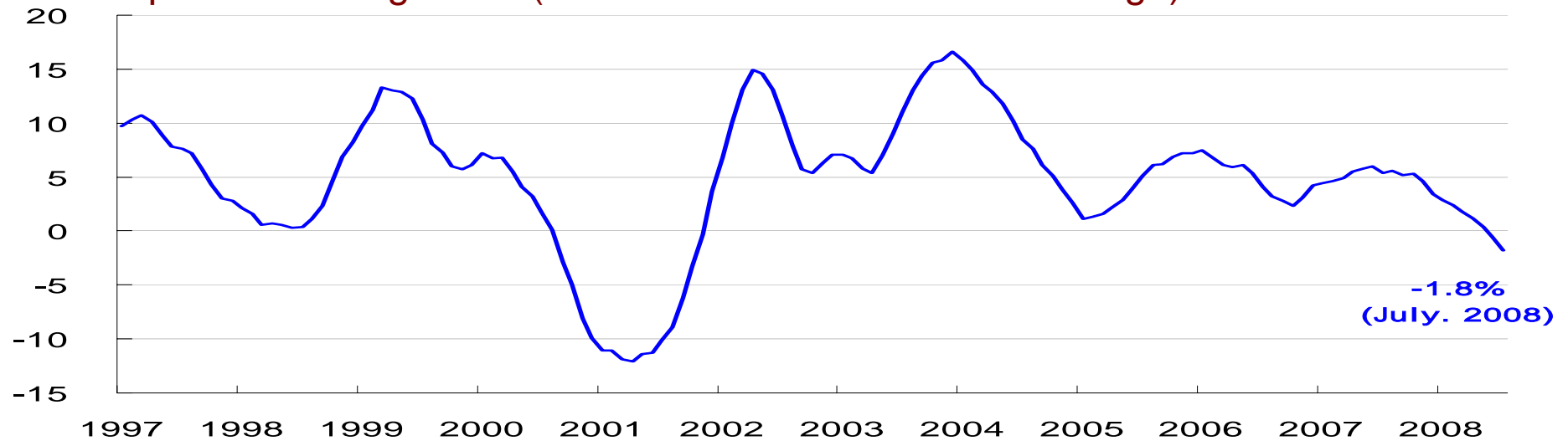
Monitoring Indicators and Economic Growth



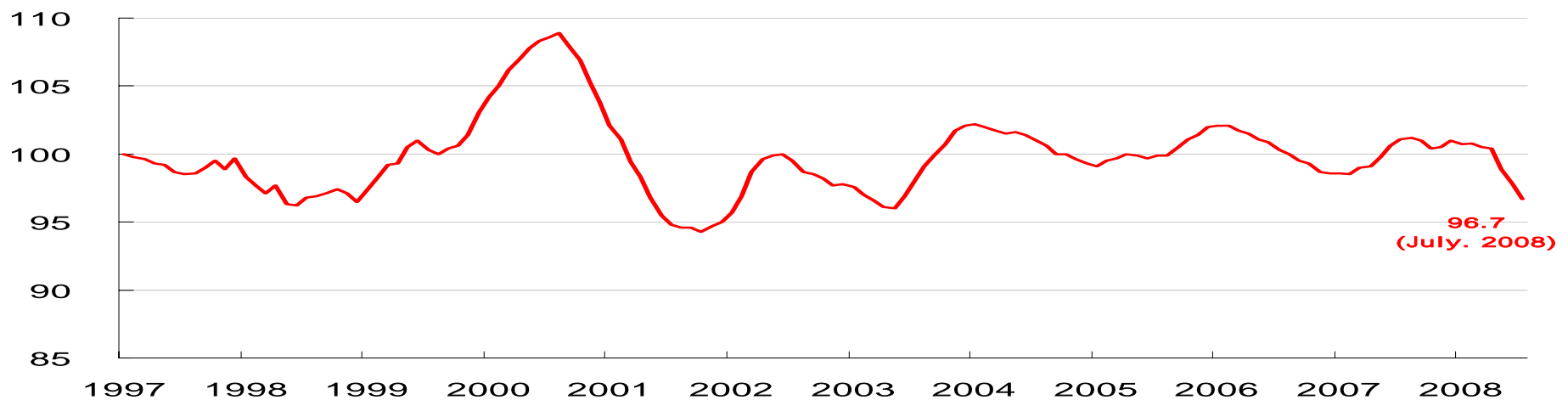
Source: CEPD

CURRENT DOMESTIC SITUATION

Composite Leading Index (Annualized 6-month rate of change)



Composite Coincident Index (Trend adjusted)



Source: CEPD.

II. PROSPECTS FOR 2008

⇒ **Taiwan's economy displaying some signs of weakness**

- The U.S. sub-prime mortgage turbulence has been spreading to international financial markets. Under the worsening global economic environment and strong inflationary pressure, the downside risk to Taiwan's economy is increasing. Taiwan's GDP is projected to grow 3.4% in the second half of 2008.
- Taiwan's economy is forecast to grow 4.3% in 2008, with per capita GDP reaching US\$18,235.

⇒ **Export growth expected to slow in the second half of the year**

- Economic activity is slowing around the globe, so Taiwan's exports are projected to increase only 6.29% in the second half of the year, much lower than the 18.1% recorded in the first half of the year. Taiwan's opening to tourists from mainland China has so far had very little effect in boosting the export of services. Imports are projected to increase by 10.2% in the second half, due to rising prices and the demand induced by export expansion.
- Exports and imports are projected to rise 11.7% and 16.0% respectively for 2008 as a whole.

⇒ **Private consumption to continue weakening**

Several factors, including declining real incomes due to rising prices, and the negative wealth effect created by falling stock prices, will hurt private consumption growth. However, with a new scheme of monthly relief subsidies for low-income households set to be launched in the fourth quarter, private consumption is projected to grow at a rate of 1.2% in the second half of the year and 1.38% for 2008 as a whole.

PROSPECTS FOR 2008

⇒ **Domestic investment waning**

- Though the gloomier economic outlook is prompting businesses to put plans for capital expenditure on hold, private investment is projected to increase 3.0% in the second half of 2008, mainly due to investment in next-generation flat-screen-display production facilities, the extension of optical and wireless network communication facilities, the improvement of the investment environment, and the implementation of BOT projects such as sewer system construction. Private investment is projected to increase only 0.06% in 2008 as a whole.
- Government investment is forecast to grow 9.3%, due mainly to local infrastructure development under the government's domestic demand expansion package.

⇒ **Inflation risks easing as the global economy slows**

- Though commodity prices have continued to fall back as prospects for a material easing of global demand have been reinforced, the prices are still relatively high. The WPI is projected to rise by 8.5% over the whole of 2008.
- Despite the cancellation of import tariffs on basic food commodities and the appreciation of the NT dollar, surging global energy and food costs, and the hikes in petroleum product, gas and electricity prices necessitated thereby, will create inflationary pressure for consumer prices, with the CPI projected to rise by 3.74% over the whole of 2008.

Forecasts for Taiwan's Economy in 2008

| Forecasting institution | Date of issue | Real GDP | | Consumer Prices | |
|-------------------------|---------------|----------|-------------------------------------|-----------------|-------------------------------------|
| | | % | Change from last forecast (% point) | % | Change from last forecast (% point) |
| World Bank | April 2008 | 4.3 | -0.3 | - | - |
| IMF | April 2008 | 3.4 | -0.4 | 1.5 | - |
| Global Insight | Aug 2008 | 4.5 | -0.1 | 3.5 | +0.2 |
| CIER | July 2008 | 4.50 | -0.17 | 3.66 | +1.02 |
| TIER | July 2008 | 4.27 | -0.03 | 3.45 | +1.13 |
| DGBAS | Aug 2008 | 4.30 | -0.48 | 3.74 | +0.45 |
| Academia Sinica | July 2008 | 4.55 | +0.24 | 3.93 | +2.00 |

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

TIER: Taiwan Institute of Economic Research, Taipei.

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

III. POLICY INITIATIVES

- ***Action Plan for Stabilizing Current Prices***

Measures

➤ Principles and Modes of Energy Price Adjustment

1. Oil and gas prices:

- (1) Revision of the floating oil-price computation formula, with elimination of the 12% price-rise cap.
- (2) One-time rise and diverse absorption. Users to bear 60%, and the government and CPC each to bear 20% (the government by lowering the commodity tax, and CPC by raising efficiency).
- (3) The price adjustment process should be accompanied by measures to alleviate its impact on the people's livelihood and industry.

2. Electricity:

- (1) Just to reflect the increased fuel and electricity-purchase expense caused by the higher price of fuel.
- (2) Giving special consideration to looking after the disadvantaged and the people's basic living needs.
- (3) During the summer pricing period, the price of electricity will be raised by only one quarter of the amount by which it needs to be adjusted.

III. POLICY INITIATIVES

- ***Action Plan for Stabilizing Current Prices***

Measures

- **Measures in Response to the Rising Prices of Daily Necessities**

- (1) Encouraging the replanting of fallow fields
- (2) Tapping new sources and regulating flows, to increase the volume of public grain stocks held by the government.
- (3) Controlling rice exports to stabilize domestic demand, but continuing to undertake humanitarian aid.
- (4) Expanding the import sources of such staple food commodities as wheat and corn, to lower import costs as a means of keeping domestic prices stable.

- **Lowering Customs Duty, Promoting Energy Saving and Carbon Reduction, and Raising Industrial Productivity**

- **Macroeconomic Policy Support**

- **Measures for Bolstering Care of Disadvantaged Members of Society**

- **Strengthening of Price Surveillance Measures**

III. POLICY INITIATIVES

- ***Relaxation of Cross-Strait Policy***

- (1) Cross-Strait Weekend Passenger Charter Flights

- On June 13 of this year, Taiwan's Straits Exchange Foundation (SEF) and mainland China's Association for Relations Across the Taiwan Strait (ARATS) signed an agreement on the implementation of cross-strait weekend passenger charter flights. The flights commenced on July 4, with each side initially operating 18 two-way flights per week, from Fridays through the following Mondays.
- In addition to Taoyuan and Kaohsiung International Airports, as previously used for festival charter flights, Taiwan opened six other airports for the weekend charter flights (Taipei Songshan, Taichung, Hualien, Penghu Makung, Kinmen, and Taitung), while the mainland initially opened five airports (Beijing, Shanghai, Guangzhou, Xiamen and Nanjing).
- The two sides will include the expansion of these charter flights (increasing the number of flights, opening additional airports, adding weekday flights, etc.) on the agenda for follow-up talks between the SEF and ARATS later this year.

III. POLICY INITIATIVES

- ***Relaxation of Cross-Strait Policy***

- (2) Opening Taiwan to Mainland Chinese Tourists

- Also on June 13 of this year, the SEF and ARATS signed an agreement on visits to Taiwan by mainland Chinese tourists. The agreement, which came into effect on June 20, opened the way for the daily arrival of 3,000 mainland Chinese tourists. The first tourists arrived in Taiwan on July 4.
- The mainland Chinese tourists are required to enter and leave Taiwan in groups of 10~40 members, and may stay in Taiwan for up to ten days per visit. Later this year, the two sides may negotiate adjustment of the daily quota of arrivals as circumstances dictate.
- Technical negotiations between SEF-ARATS have covered such matters as tourist identity checks, the repatriation of illegal stayers, rules for travel agencies' reception of tourists, the mediation of tourism disputes, and the establishment of a reporting window. In preparation for the tourists' arrival, the MOTC has carefully mapped out and amended related laws and regulations with a view to ensuring the quality of the tours and the sustainable development of the mainland Chinese tourist market.

III. POLICY INITIATIVES

- ***Program for Strengthening Local Development Construction to Expand Domestic Demand***

Background

- Local development construction has a key bearing on the people's living and production environment and the preservation of the eco-environment. However, since local governments commonly have financial difficulties and have already reached their public debt ceilings, they are unable to meet the pressing needs for quantity and quality of local development construction.
- At the same time, the impact of soaring oil prices and the US subprime mortgage storm has caused a downturn in global economic growth, also affecting and damping Taiwan's economic growth.

Targets

To stimulate economic growth and assist the implementation of local public construction, the government estimates that it will need to spend a total of NT\$103.4 billion on improving local public infrastructure, and is planning to put this into effect before the end of 2008 with a view to boosting economic growth momentum and facilitating life for the general population.

Conclusion

- The IMF and Global Insight have lowered their 2008 global GDP forecasts, mainly due to the turbulence in international financial markets and surging international oil prices.
- Because the deteriorating global environment and the inflation threat weigh on Taiwan's economy, the downside risk is rising.
- The government has drawn up an eight-item action plan for boosting domestic demand to help keep the economy growing at a steady pace.
- With the launch of the *i-Taiwan* 12 Projects and other development initiatives under the new administration, Taiwan should be able to look forward to a bright future in which per capita GDP will rise steadily to its targeted level of US\$30,000 by 2016.

Thank you

This summary is prepared by the Department of Economic Research of the Council for Economic Planning and Development (CEPD). Quarterly updates can be found on the CEPD's website at <http://www.cepd.gov.tw/encontent/index.jsp>. For inquiries call 886-2-2316-5682 or send an e-mail to bci@cepd.gov.tw.