

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development
Executive Yuan

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I. CURRENT DOMESTIC SITUATION

Economic Growth

⇒ In the third quarter of 2008, real exports of goods and services declined by 0.65%. With private consumption and fixed capital formation also decreasing, GDP contracted by 1.02% compared with the same quarter last year. In the fourth quarter of 2008, GDP is expected to decrease by 1.7%.

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 _r	4.8	1.5	1.8	-0.4	0.9	3.6	-7.9	-7.4	-	-	10.3	5.6
2007 _r	5.7	2.2	2.3	0.9	1.9	3.3	1.4	-5.3	-	-	8.8	3.8
2008_f	1.9	-1.0	-0.3	1.4	-5.8	-7.8	1.9	1.5	-	-	3.6	-0.4
Q1 _r	6.3	3.3	2.1	1.3	3.7	3.9	6.5	0.1	-	-	12.7	9.6
Q2 _r	4.6	-2.6	0.5	-0.2	-8.0	-9.9	4.7	-1.0	-	-	9.9	0.2
Q3 _p	-1.0	-2.2	-2.0	1.3	-10.7	-11.5	-9.9	-6.4	-	-	-0.7	-2.4
Q4 _f	-1.7	-2.2	-1.9	2.8	-6.1	-11.4	5.8	10.6	-	-	-5.7	-7.7
2009_f	2.1	1.6	1.9	2.0	1.2	-2.9	3.0	22.5	-	-	-3.6	-6.4
Q1 _f	-0.3	-0.2	0.7	0.8	-4.5	-8.7	2.0	20.9	-	-	-8.5	-10.9
Q2 _f	1.1	1.4	1.7	2.1	0.1	-4.2	3.8	26.8	-	-	-6.1	-8.3
Q3 _f	3.8	1.5	2.4	1.8	2.4	-2.6	3.7	29.8	-	-	-1.8	-7.0
Q4 _f	3.9	3.7	2.7	3.2	5.9	3.9	2.7	15.6	-	-	1.9	0.9

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), November 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	0.1	0.3	-0.1	-0.6	2.6	4.7	2.0
2006 _r	4.8	1.3	1.0	-0.1	0.2	0.5	-0.1	-0.2	0.2	3.5	6.5	3.0
2007 _r	5.7	1.9	1.3	0.1	0.4	0.5	0.0	-0.1	0.1	3.8	5.9	2.1
2008 _f	1.9	-0.8	-0.2	0.2	-1.1	-1.2	0.0	0.0	0.3	2.7	2.5	-0.2
Q1 _r	6.3	2.9	1.3	0.1	0.6	0.5	0.1	0.0	0.9	3.4	8.2	4.9
Q2 _r	4.6	-2.2	0.3	-0.0	-1.6	-1.7	0.1	-0.2	-0.9	6.8	6.9	0.1
Q3 _p	-1.0	-1.9	-1.1	0.2	-2.1	-1.7	-0.1	-0.2	1.1	0.9	-0.5	-1.3
Q4 _f	-1.7	-1.8	-0.9	0.3	-1.2	-1.6	0.1	0.3	0.0	0.1	-4.0	-4.0
2009 _f	2.1	1.3	1.0	0.2	0.2	-0.4	0.1	0.6	-0.1	0.8	-2.5	-3.4
Q1 _f	-0.3	-0.2	0.4	0.1	-0.7	-1.1	0.0	0.4	0.0	-0.1	-5.8	-5.7
Q2 _f	1.1	1.1	0.9	0.2	0.0	-0.6	0.1	0.6	-0.0	-0.1	-4.5	-4.4
Q3 _f	3.8	1.2	1.3	0.2	0.4	-0.4	0.1	0.7	-0.7	2.6	-1.2	-3.8
Q4 _f	3.9	3.0	1.4	0.4	1.1	0.5	0.1	0.5	0.2	0.9	1.3	0.4

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), November 2008

CURRENT DOMESTIC SITUATION

Domestic Investment

- ⇒ In the third quarter of 2008, gross fixed capital formation contracted 10.7%, due mainly to an 11.5% decline in the private investment.
- ⇒ In the fourth quarter, with the global economic downturn looking set to become deeper and more protracted, domestic private investment is expected to continue weakening. Consequently, for 2008 as a whole, gross fixed capital formation is forecast to contract 5.8%.

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
2006 _r	2,531.4	0.9	1,932.5	3.6	190.7	-7.9	408.2	-7.4
2007 _r	2,668.0	1.9	2,054.8	3.3	199.5	1.4	413.7	-5.3
2008_f	2,648.7	-5.8	1,970.9	-7.8	211.5	1.9	466.3	1.5
Q1 _r	615.7	3.7	483.4	3.9	46.3	6.5	86.0	0.1
Q2 _r	676.8	-8.0	528.0	-9.9	42.7	4.7	106.0	-1.0
Q3 _p	653.8	-10.7	491.8	-11.5	45.6	-9.9	116.4	-6.4
Q4 _f	702.4	-6.1	467.8	-11.4	76.9	5.8	157.8	10.6
2009_f	2,663.5	1.2	1,889.7	-2.9	218.2	3.0	555.6	22.5
Q1 _f	582.6	-4.5	435.6	-8.7	47.4	2.0	99.6	20.9
Q2 _f	671.8	0.1	498.8	-4.3	44.4	3.8	128.6	26.8
Q3 _f	665.6	2.4	471.7	-2.6	47.4	3.7	146.6	29.8
Q4 _f	743.5	5.9	483.5	3.9	79.1	2.7	180.9	15.6

P = preliminary; f = forecast; r = revised. Source: DGBAS, November 2008

CURRENT DOMESTIC SITUATION

Foreign Trade

- ⇒ With the weakening of external demand, exports and imports decreased 8.3% and 7.0% year on year in October, but were up 11.9% and 18.5% over the first ten months of 2008.
- ⇒ A trade surplus of US\$11.4 billion was recorded during January ~ October 2008, down US\$9.5 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-Oct	439.1	15.0	225.2	11.9	213.8	18.5	11.4

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

												yoy %
		Exports					Imports					
		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-Oct		-0.8	13.1	10.0	9.7	16.9	7.4	7.6	61.6	17.6	15.8	
	Share	11.7	6.6	11.5	39.7	15.0	11.0	19.1	16.7	13.5	10.6	

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

Source: Ministry of Finance.

CURRENT DOMESTIC SITUATION

Production

⇒ Industrial production grew only 4.2% in the first ten months of 2008, with manufacturing output increasing 4.6%.

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-Oct	4.2	-0.2	4.6	0.4	-1.4	-6.5

Source: Ministry of Economic Affairs.

CURRENT DOMESTIC SITUATION

Unemployment rate and labor force participation rate

- ⇒ October's unemployment rate was 0.10 of a percentage point higher than the previous month's, at 4.37%, while the seasonally adjusted unemployment rate rose by 0.17 of a percentage point to 4.29%.
- ⇒ October's labor force participation rate was 0.10 of a percentage point lower than the previous month's, at 58.32%, but was up 0.13 of a percentage point year on year.

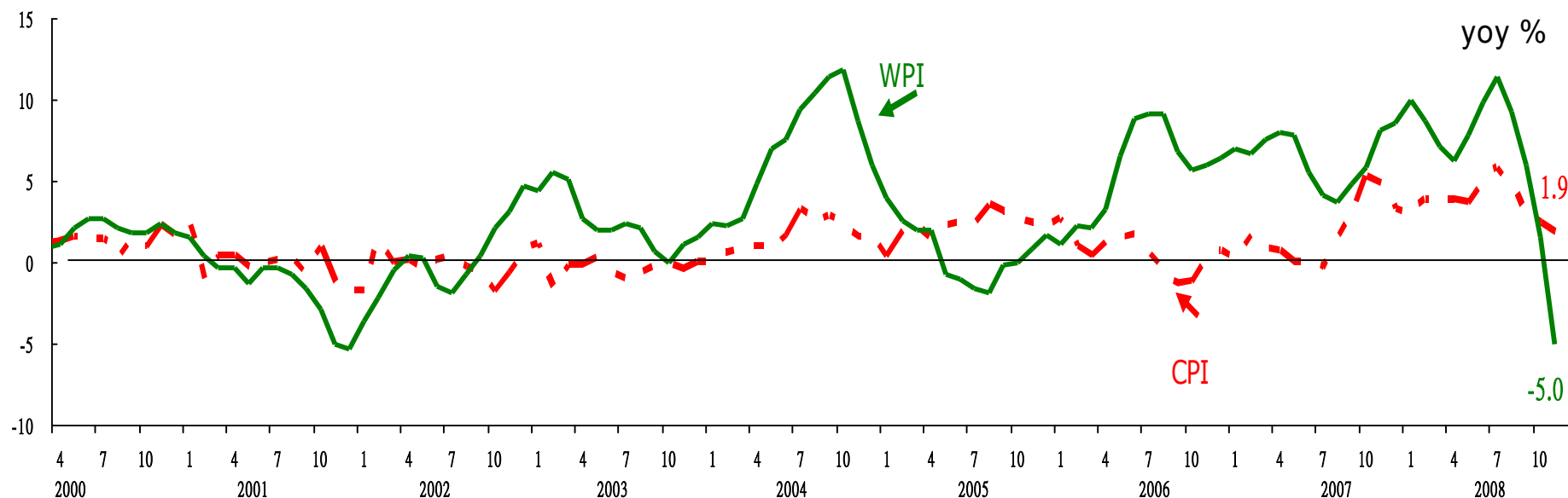


Source: Directorate-General of Budget, Accounting and Statistics.

CURRENT DOMESTIC SITUATION

Prices

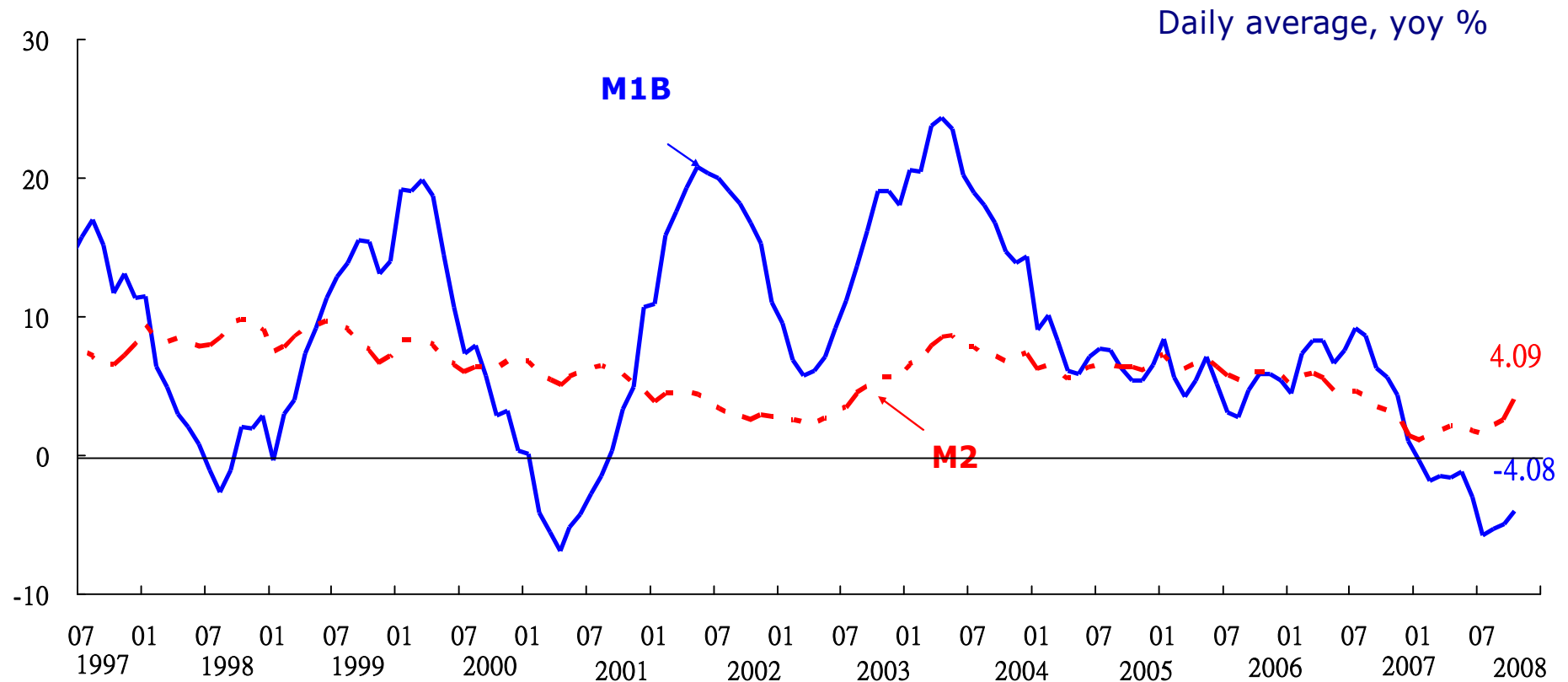
- ⇒ Due to the low base of 2007, the annual change rate for CPI was relatively high in the first half year of 2008 and the peak was 5.8% this July. CPI was 1.9% this November due to the substantial decrease of international prices of Crude Oil and Cereal in the recent months.
- ⇒ The WPI in November 2008 decreased 4.95%, due primarily to prices of Crude Petroleum and Natural Gas moving down.
- ⇒ In recent months, the decline of commodity prices lowered inflation risk and hence improved real income growth among consumers.



CURRENT DOMESTIC SITUATION

Money Supply

⇒ In October 2008, M1B continued its downward trend to a year-on-year decline of 4.1%, while M2 grew 4.1%.

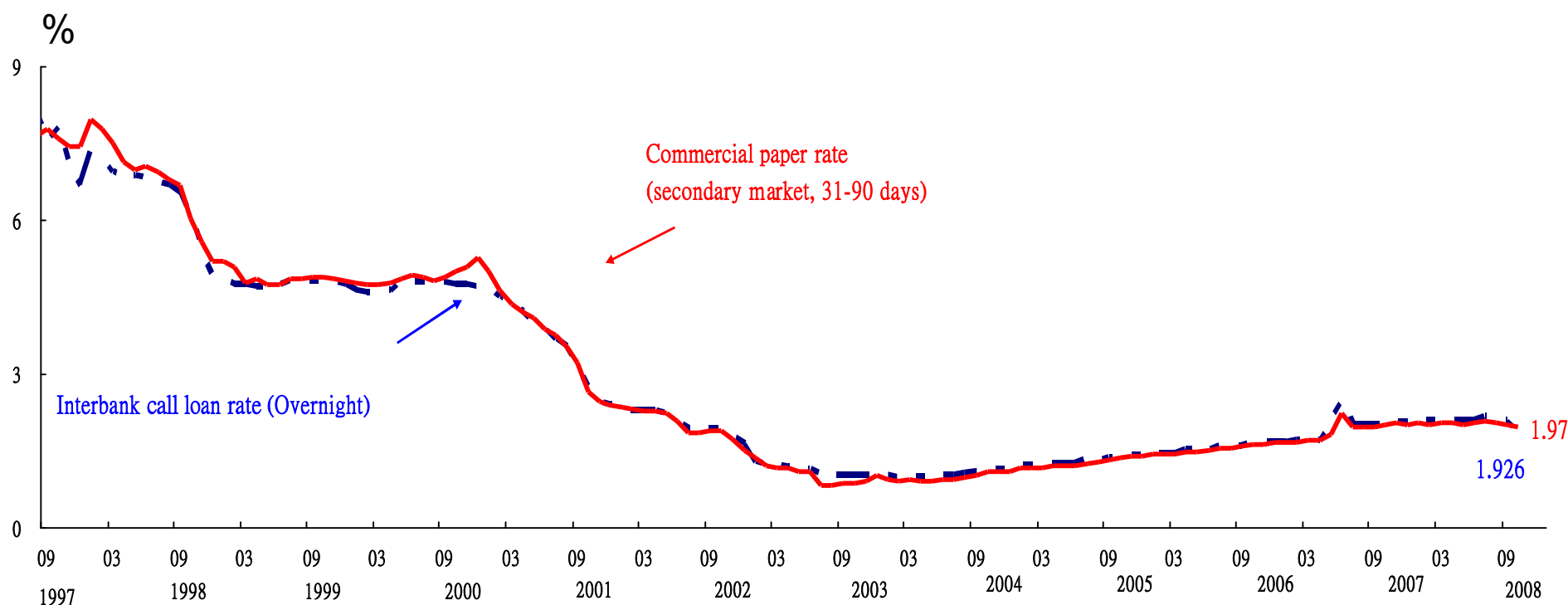


Source: Central Bank of China (Taiwan).

CURRENT DOMESTIC SITUATION

Short-term Interest Rates

⇒ In recent months, the pressure of imported inflation previously facing Taiwan has been approaching a level consistent with price stability, while the pace of economic activity has slowed markedly. Therefore, the CBC decided to implement a further cut in interest rates. The commercial paper rate and interbank rate stood at 1.93% and 1.97%, respectively, in October 2008.

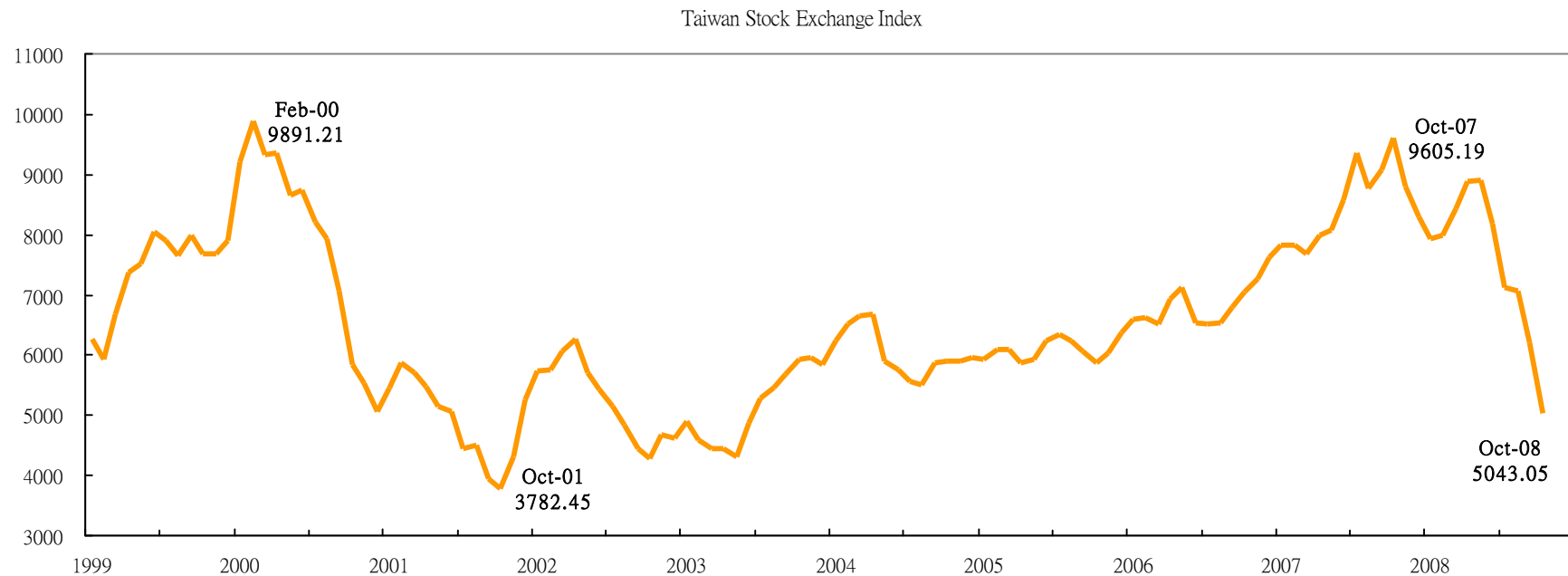


Source: Central Bank of China (Taiwan).

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.
- ⇒ After peaking at a 9,605-point average last October, the index has dropped sharply to 5,043 points this October, down 47.5% year on year.





































































































































Source: Taiwan Stock Exchange.

CURRENT DOMESTIC SITUATION

Monitoring Indicators

The overall monitoring indicator has flashed "blue" for the third time in 2008, signaling signs of weakness in Taiwan's economic situation.

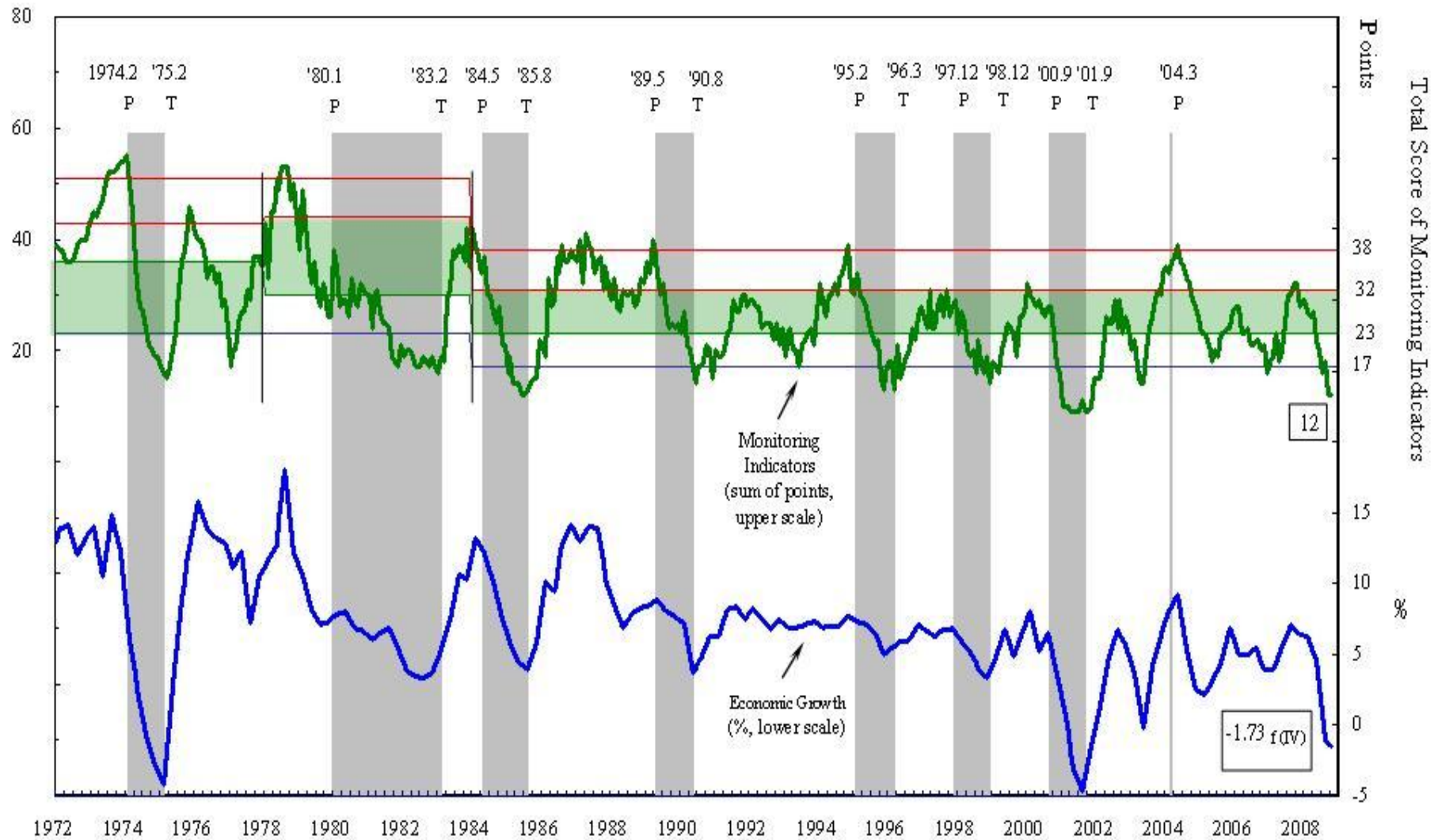
		2007			2008									
		10	11	12	1	2	3	4	5	6	7	8	9	10
Total	Light													
	Score	32	28	29	29	27	26	27	22	20	16	18	12	12
Monetary Aggregates M1B														
Direct and Indirect Finance														
Stock Price Index														
Industrial Production Index														
Nonagricultural Employment														
Exports														
Imports of Machinery and Electrical Equipment														
Manufacturing Sales														
Wholesale, Retail and Food Services Sales														

● 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.

Source: Council for Economic Planning and Development. (CEPD)

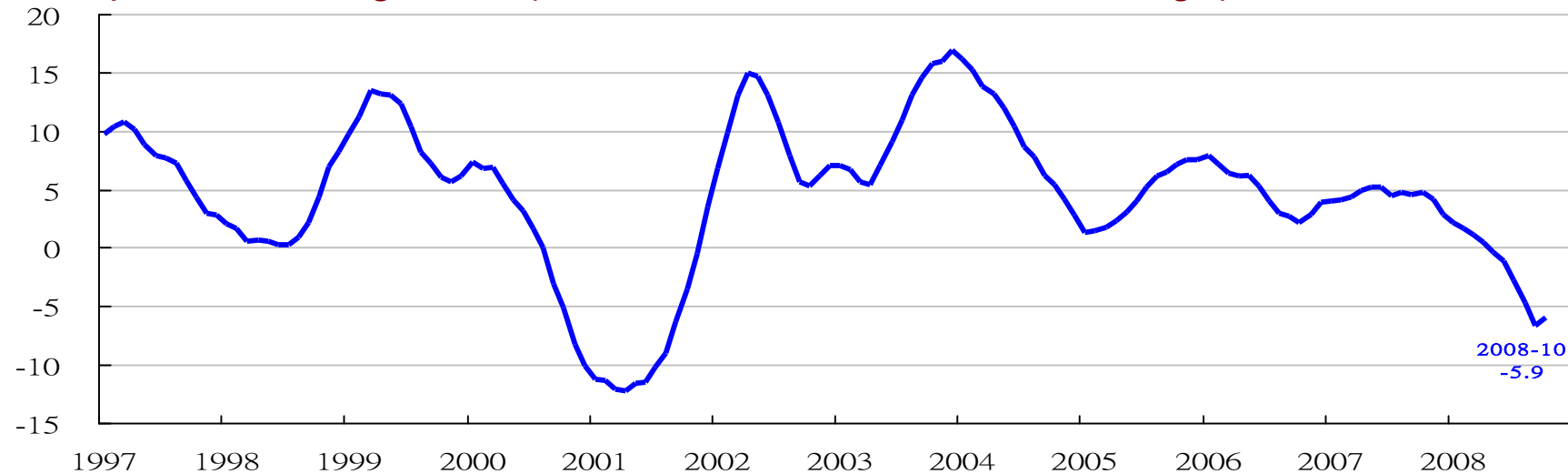
Monitoring Indicators and Economic Growth



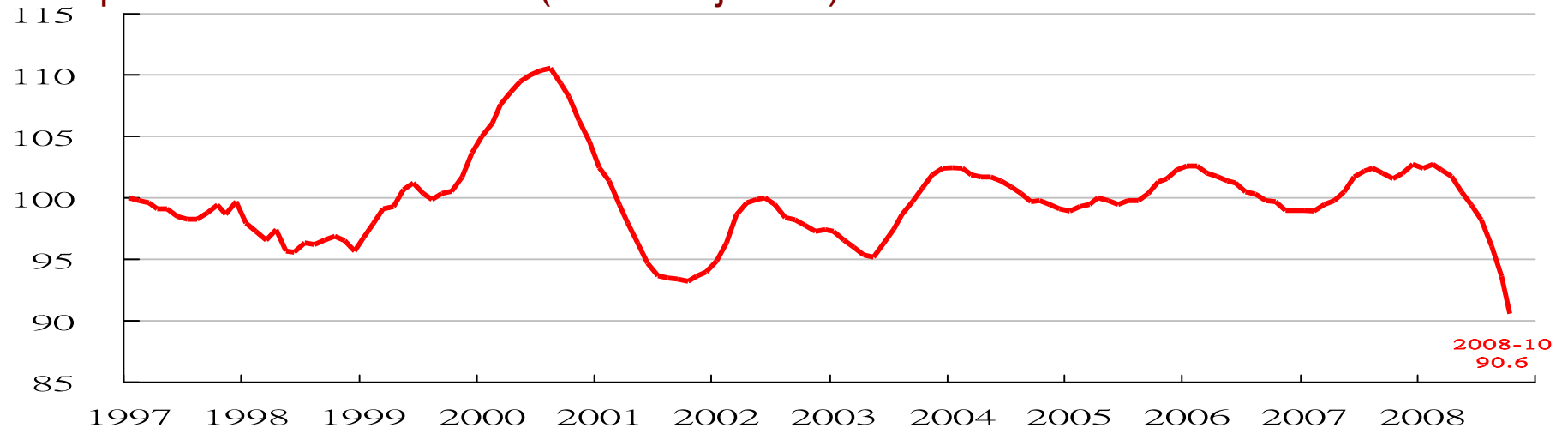
Source: CEPD

CURRENT DOMESTIC SITUATION

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



Composite Coincident Index (Trend adjusted)



Source: CEPD.

II. PROSPECTS FOR 2008/2009

⇒ **Taiwan's economic conditions look set to weaken into the first part of next year**

- While the global economic outlook continues to deteriorate due to intensifying financial turmoil emanating from the U.S., Taiwan's economy will continue to feel the impact through financial conduits.
- In the fourth quarter of 2008, private investment and consumption are expected to continue weakening. With the global economic downturn projected to grow deeper and more protracted, external trade will be increasingly pinched. For 2008 as a whole, Taiwan's real GDP is forecast to grow by 1.87%.
- The latest forecasts for the global economy point to a marked slowdown of growth in 2009. While this will put stress on Taiwan's exports, the second half of the year is expected to bring an improved contribution to growth from the domestic sector. For 2009 as a whole, real GDP is predicted to grow by 2.12%, with per capita GDP reaching US\$17,176.

PROSPECTS FOR 2008/2009

⇒ **Exports dipping sharply in fourth quarter**

- Economic activity is slowing around the globe, so Taiwan's exports are projected to diminish 8.3% in this year's fourth quarter, a sharp drop from the 18.1% growth recorded in the first half of the year. Service exports have so far gained very little boost from Taiwan's opening to tourists from mainland China. Imports are also projected to decrease by 9.3% in the fourth quarter, due to falling prices and declining export-induced demand.
- Exports and imports are projected to decrease 9.6% and 14.8% respectively for 2009 as a whole.

⇒ **Private consumption to continue weakening**

- The negative wealth effect created by falling stock and housing prices has seriously hurt private consumption growth. This should be partly mitigated by a new scheme of monthly relief subsidies for low-income households and a short-term employment promotion program set to be launched in the fourth quarter.
- However, private consumption is projected to decrease at a rate of 1.86% in the fourth quarter and fall 0.3% for 2008 as a whole.

PROSPECTS FOR 2008/2009

⇒ **Domestic investment waning**

- Because the gloomier economic outlook is prompting businesses to put plans for capital expenditure on hold, private investment is projected to decrease 11.4% in the fourth quarter of 2008 and fall 2.87% in 2009.
- However, government investment is forecast to grow 9.3% in 2009, due mainly to infrastructure development under the government's domestic demand expansion package and i-Taiwan 12 projects.

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

- Commodity prices have continued to fall back as prospects for a material easing of global demand have been reinforced. The WPI is projected to rise by 6.3% in 2008 and to fall by 2.2% in 2009.
- With prices of petroleum products having fallen sharply, it is projected that the CPI rise for the whole of 2008 will be curbed at 3.64%. Factors such as the expected major downturn of the global economy, the continuing fall of commodity prices, and the relatively high base, translate into a projected CPI increase of just 0.37% in 2009.

Forecasts for Taiwan's Economy

	Real GDP (yoy, %)		Consumer Prices (yoy, %)	
	2008	2009	2008	2009
DGBAS (2008.11)	1.87 (4.30)	2.12 (5.08)	3.64 (3.74)	0.37(1.91)
TIER (2008.11)	4.08 (4.27)	4.11	3.67 (3.45)	1.82
CIER (2008.12)	1.68 (3.82)	1.24 (3.34)	3.58 (3.73)	-0.95 (2.11)
Academia Sinica (2008.7)	4.55 (4.31)	—	3.93 (1.93)	—
IMF (2008.11)	3.8 (3.8)	2.2 (2.5)	3.7 (4.2)	1.0 (2.5)
Global Insight (2008.11)	3.4 (3.8)	2.8 (3.5)	3.6 (3.4)	2.0 (2.2)

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).

() indicates the value of previous forecasts.

III. POLICY INITIATIVES

- ***Action Plan for Stabilizing Current Prices (May, 2008)***

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 (May, 2008)***

Measures

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

- (1) Encouraging the replanting of fallow fields.
- (2) Increasing the volume of public grain stocks by tapping new sources and regulating flows.
- (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

- ***Program for Strengthening Local Development Construction to Expand Domestic Demand (May, 2008)***

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 higher oil prices and the global financial storm triggered by the US subprime mortgage crisis have caused a downturn in global economic growth, 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.

III. POLICY INITIATIVES

- ***Plans for Implementation of the Economic Vitalization Package (Sep, 2008)***

- 1. Looking after the Disadvantaged**

- Implementing the Project to Subsidize Work Income: The government will within six months disburse NT\$13.5 billion to provide care for around 450,000 close-to-poverty households.

- 2. Encouraging Environmentally Beneficial Consumption**

- Subsidizing the purchase of energy-saving lights (light bulbs), solar water-heating systems, solar photovoltaic systems, and home appliances such as air-conditioners, refrigerators and washing machines that meet energy-saving certification requirements.
- Subsidizing the purchase and use of electric-powered and low-polluting vehicles, and the replacement of old vehicles, by members of the general public.
- Promoting the use of energy-saving LED lights

III. POLICY INITIATIVES

- ***Plans for Implementation of the Economic Vitalization Package (Sep, 2008)***

3. Promoting Employment

- Relaxing the Regulations for Subsidizing and Awarding Employers for Hiring Unemployed Workers.
- Helping young people obtain employment
- Conducting temporary special projects for raising living quality or promoting social welfare, to provide 2,500 temporary work opportunities.

4. Preferential Housing Loans

- Allocating an additional NT\$200 billion for preferential home-purchase loans.
- Implementing the Program for Helping Young Couples Form Families with Ease of Mind
- Continuing the provision of interest subsidies for home purchase or renovation loans.

III. POLICY INITIATIVES

- ***Plans for Implementation of the Economic Vitalization Package (Sep, 2008)***

5. Strengthening Public Construction

- Actively encouraging private participation in public construction and urban renewal projects.
- Acting with the utmost urgency to promote foreign and mainland Chinese investment in public construction projects in Taiwan.
- Accelerating the implementation of a NT\$240 billion budget for large-scale (NT\$100 million and over) public construction projects.

6. Promoting Private Investment

- The short-term (from July 2008 to year-end 2009) implementation of a five-year tax-exemption for new or increased investment (extended to traditional industries).
- Implementing the “7-8-9” program for the preferential sale of land in industrial parks.
- Raising tax credit rates for companies purchasing and installing energy-saving equipment or investing in new and clean energy equipment or technology.

III. POLICY INITIATIVES

- ***Plans for Implementation of the Economic Vitalization Package (Sep, 2008)***

7. Stabilizing Financial and Stock Markets

- Halving the securities transaction tax for half a year.
- Coordinating the funding support needed by banks to continue conducting corporate financing operations, to avoid banks tightening the supply of credit to companies that are operating normally but facing temporary difficulty.
- Strengthening the stock market stabilization function of the four big government-managed funds.

8. Strengthening Financing to Small and Medium-Size Enterprises

- Increasing the loan percentage and amount of guarantees provided by the Small and Medium Enterprise Credit Guarantee Fund.
- Strengthening the provision of loans and assistance for starting up micro-enterprises, to help women and middle-aged and older people set up micro-businesses.

III. POLICY INITIATIVES

- ***Plans for Implementation of the Economic Vitalization Package (Sep, 2008)***

9. Expanding Exports

- Setting targets for export expansion to grow by at least 10% in the second half of 2008 and by 14% in 2008.
- Diversifying export markets and specially pursuing expansion in emerging markets.

10. Pursuing Tax Reform

- Implementing the “468” earned income tax credit (EITC) project* (including the Project to Subsidize Work Income), and raising the individual income tax standard deduction*, wage deduction*, special deduction for the disabled or handicapped*, and education deduction*.
- Lowering the general business income tax*, estate tax*, and gift tax*.

* Already listed on the agenda of the Executive Yuan Tax Reform Commission.

III. POLICY INITIATIVES

● ***Promoting the normalization of cross-strait relations***

When Chen Yunlin led the ARATS delegation to Taipei for the 2nd round of “Chiang-Chen talks” on November 4, it was the highest level visit to Taiwan by a representative of the Mainland authorities since 1949.

1. Four cross-strait agreements signed

- The talks resulted in the signing of four agreements on direct air transport, direct sea transport, postal cooperation and food safety.
- These agreements will have actively positive effects in facilitating contacts between the people on the two sides of the Strait, promoting bilateral economic and trade interflows, and strengthening food sanitation and safety.
- Taiwan will be able to attract more investment by transnational enterprises, and serve as an operations base for access to the markets of Mainland China and Southeast Asia.
- At the same time, these developments help re-establish Taiwan’s strategic position in the economies of Asia and even the Asia-Pacific region, raise Taiwan’s overall competitiveness, and bolster connections between Taiwan and international markets.

III. POLICY INITIATIVES

- *Promoting the normalization of cross-strait relations*

2. Prioritizing issues for the next stage of talks

- **Strengthening the order of cross-strait exchanges:** Jointly fighting crime, expanding food sanitation and safety cooperation, and enhancing inspection and quarantine measures for agricultural products.
- **Cross-strait financial cooperation:** Establishing a cooperative mechanism for banking supervision, and signing a memorandum on cross-strait securities and futures supervision.
- **Cross-strait economic and trade cooperation,** such as a cross-strait investment protection agreement, avoidance of double taxation, a cross-strait economic and trade dispute arbitration mechanism, cross-strait standards inspection and certification cooperation, and cross-strait IPR protection.
- **Cross-strait fishery cooperation,** such as cross-strait fishing industry labor cooperation, and handling of fishery disputes; and **cross-strait educational and news exchanges.**

Conclusion

- The IMF and Global Insight have lowered their 2008 and 2009 global GDP growth forecasts, mainly due to the deepening turbulence in international financial markets.
- The deteriorating global environment has dampened the outlook for Taiwan's exports and tilted Taiwan's economy firmly to the downside.
- The government has drawn up plans for implementing an economic vitalization package to boost domestic demand as a means to prop up domestic economic growth.
- With the launch of the *i-Taiwan* 12 Projects and an additional large-scale stimulus program of public construction spending, Taiwan should be able to maintain financial stability and speedily regain a healthy level of economic growth.

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.