

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development
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GLOBAL ECONOMY

Latest World Bank forecasts (November 2005) :

⇒ **World economic growth** is forecast to be 3.1 % in 2005.

- **United States:** Growth projection has been adjusted lower to 3.5% in 2005 after the struck of hurricanes Katrina and Rita.
- **Euro area:** Growth projection has been adjusted lower to 1.1% due to unexpected weakness in domestic demand.
- **Japan:** The prospects for sustained medium-term recovery have brightened considerably, with growth reaching 2.3% in 2005.
- **Emerging East Asia:** Growth is expected to reach 6.2% in 2005, down modestly from the exceptionally strong 7.2% pace of 2004. Given that growth in China has shown hardly any deceleration from last year's 9.5% pace, it is among the region's high income NIEs and the middle income economies of South East Asia that the recent easing in growth has occurred.
- **Trade volume:** Forecast for 2005 is adjusted lower to 7.0%.

World Economic Outlook

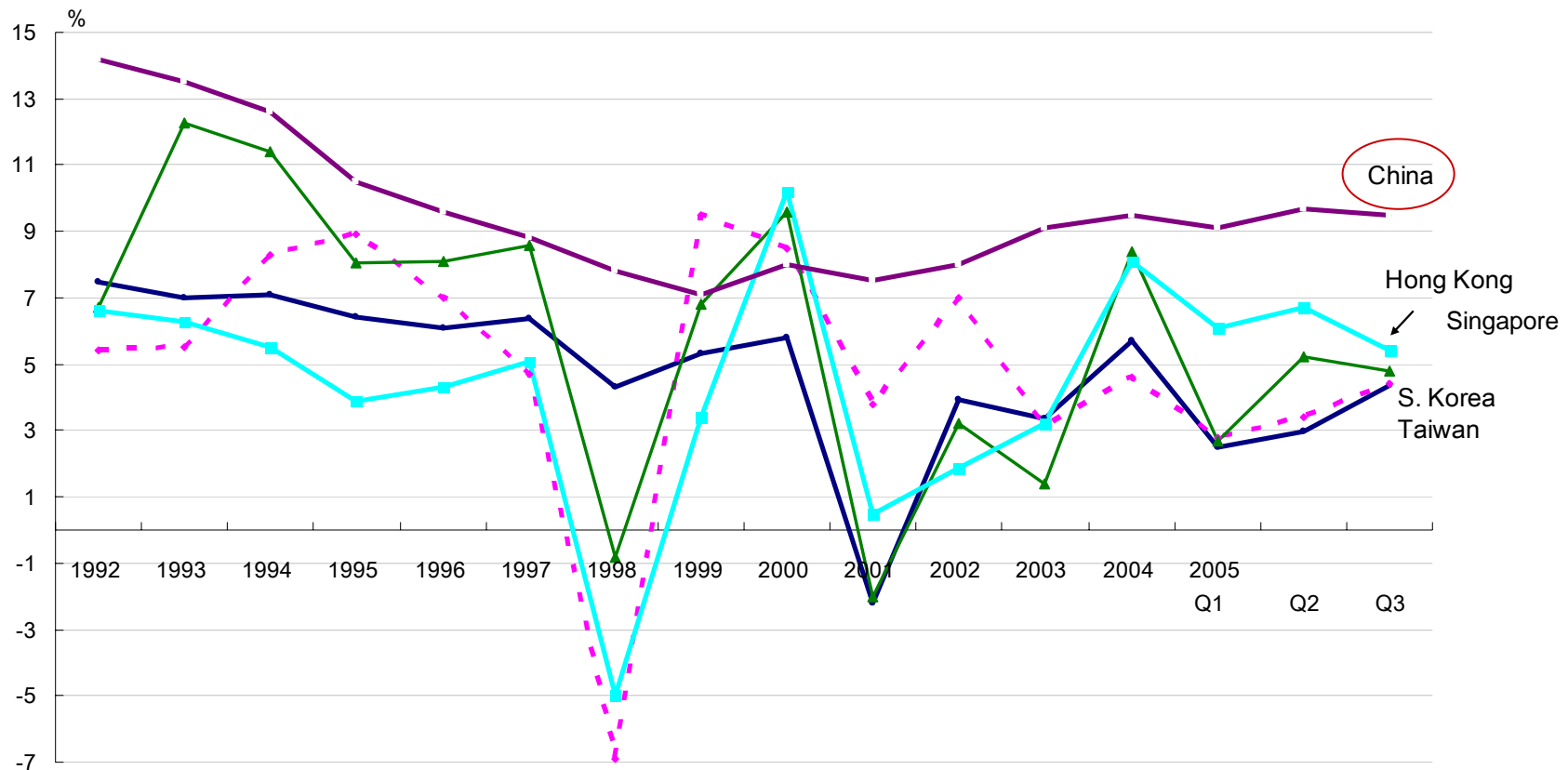
| | World Bank | | | Global Insight | | |
|------------------------------------|-------------|------------|------------|----------------|------------|------------|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| World Economic Growth % | 3.8 | 3.1 | 3.1 | 4.0 | 3.3 | 3.2 |
| United States | 4.2 | 3.5 | 3.5 | 4.2 | 3.6 | 3.4 |
| Japan | 2.6 | 2.3 | 1.8 | 2.6 | 2.4 | 1.9 |
| Euro area | 1.7 | 1.1 | 1.4 | 1.8 | 1.4 | 1.8 |
| East Asia | 8.2 | 7.7 | 7.5 | - | - | - |
| Asia-Pacific excluding Japan | - | - | | 6.1 | 6.9 | 6.2 |
| Asian NIEs* | 5.9 | 4.0 | 4.4 | - | - | - |
| China | 9.5 | 9.3 | 8.7 | 9.5 | 9.3 | 8.5 |
| World Trade Volume Growth % | 10.3 | 6.4 | 7.0 | - | - | - |

*Korea, Taiwan, Hong Kong, and Singapore.

Sources: 1. World Bank, *East Asia Update*, November 2005.
2. Global Insight, November 2005.

Asian Tigers and China: Economic Growth

China's growth continued to run at robust rates above 9% in 2005, while growth in NIEs has been affected by higher oil prices, higher dollar interest rates and slower demand growth in global high-tech markets.



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

DOMESTIC ECONOMY

1. *Economic Growth*

Despite softening signs in the second half of 2004, the economy recorded a robust annual growth rate of 6.1%. In 2005, the first half saw a noticeable decline in the pace of expansion to 2.7%, 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 | | | | |
| 2000r | 5.8 | 3.8 | 2.8 | 0.1 | 2.1 | 2.4 | -0.1 | -0.2 | -1.2 | 2.0 | 8.5 | 6.5 |
| 2001r | -2.2 | -4.6 | 0.4 | 0.1 | -4.7 | -4.4 | 0.03 | -0.3 | -0.4 | 2.5 | -4.2 | -6.7 |
| 2002r | 4.3 | 1.6 | 1.5 | 0.3 | -0.1 | 0.5 | -0.03 | -0.6 | -0.01 | 2.6 | 5.1 | 2.5 |
| 2003r | 3.4 | 0.7 | 0.6 | 0.1 | -0.2 | -0.03 | -0.1 | -0.04 | 0.3 | 2.7 | 5.7 | 3.0 |
| 2004r | 6.1 | 6.3 | 2.3 | -0.1 | 3.1 | 3.7 | -0.4 | -0.2 | 1.0 | -0.2 | 8.2 | 8.5 |
| 2005f | 3.8 | 2.4 | 1.8 | 0.1 | 0.7 | 0.4 | 0.2 | 0.04 | -0.2 | 1.4 | 3.7 | 2.3 |
| Q1r | 2.5 | 2.7 | 1.6 | -0.1 | 1.7 | 1.3 | 0.4 | 0.0 | -0.6 | -0.2 | 1.2 | 1.4 |
| Q2r | 3.0 | 3.2 | 1.7 | 0.1 | 1.5 | 1.3 | 0.2 | -0.1 | -0.01 | -0.3 | 1.9 | 2.2 |
| Q3p | 4.4 | 2.9 | 2.2 | 0.1 | 0.1 | -0.3 | 0.2 | 0.1 | 0.6 | 1.5 | 4.1 | 2.6 |
| Q4f | 5.3 | 0.7 | 1.7 | 0.2 | -0.4 | -0.5 | 0.01 | 0.1 | -0.8 | 4.6 | 7.4 | 2.8 |

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

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

Source: Directorate-General of Budget, Accounting, and Statistics, 191st Commission on National Income Statistics Meeting, November 17, 2005.

DOMESTIC ECONOMY

2. Foreign Trade

(1) Two-way trade

- ⇒ Exports and imports softened from 2004, with two-way trade increasing 9.2% in the first eleven months of 2005.
- ⇒ Trade surplus amounted to US\$4.9 billion in January-November of 2005, lower than the US\$6.7 reached during the same period last year.

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-Nov | 339.6 | 9.2 | 172.2 | 8.2 | 167.4 | 10.2 | 4.9 |

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.
- ⇒ Trade shares of the United States, Europe and Japan have narrowed in contrast to the increasing shares of Hong Kong and China, and ASEAN.

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 |
| 2001 | 25.4 | 9.8 | 16.7 | 23.5 | 10.4 | 17.8 | 27.6 | 15.9 | 6.0 | 12.7 |
| 2002 | -20.6 | -23.1 | -16.5 | -10.8 | -21.6 | -27.4 | -33.0 | -21.2 | -7.8 | -21.2 |
| 2003 | -3.2 | -6.1 | -6.3 | 28.7 | 2.9 | -0.7 | 5.5 | -2.3 | 24.9 | 3.7 |
| 2004 | -3.1 | -0.5 | 10.2 | 22.1 | 8.9 | -7.0 | 19.6 | 10.9 | 31.0 | 5.4 |
| 2005 Jan-Nov | 8.4 | 10.8 | 14.6 | 28.3 | 33.7 | 28.6 | 33.7 | 31.1 | 48.0 | 16.1 |
| Share | 15.1 | 7.6 | 12.3 | 37.6 | 13.8 | 11.6 | 25.4 | 12.0 | 11.9 | 11.5 |

*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 78.3% in January – November of 2005.
- ⇒ The share of imports of capital goods lowered to 19.9% in January-November 2005 from 2004.

Composition of Foreign Trade

| | Composition (%) | | | | | | Change (yoy % in US\$) | |
|--|-----------------|------|------|------|------|--------------|------------------------|--------------|
| | 1996 | 2001 | 2002 | 2003 | 2004 | 2005 Jan-Nov | 2004 | 2005 Jan-Nov |
| Exports | 100 | 100 | 100 | 100 | 100 | 100.0 | 20.7 | 8.2 |
| Agricultural Products | 0.4 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.7 | -3.8 |
| Processed Agricultural Products | 3.1 | 1.4 | 1.3 | 1.2 | 1.2 | 1.0 | 17.7 | -4.2 |
| Industrial Products | 96.5 | 98.4 | 98.4 | 98.5 | 98.6 | 98.8 | 20.8 | 8.4 |
| Heavy & Technology-intensive Industry* | 60.5 | 71.1 | 73.1 | 75.3 | 77.2 | 78.3 | 23.6 | 9.8 |
| Others | 36.0 | 27.3 | 25.3 | 23.2 | 21.4 | 20.5 | 11.5 | 3.6 |
| Imports | 100 | 100 | 100 | 100 | 100 | 100.0 | 31.9 | 10.2 |
| Capital Goods | 17.9 | 25.0 | 23.0 | 20.5 | 21.4 | 19.9 | 38.2 | 3.1 |
| Raw Materials | 69.0 | 65.7 | 67.7 | 70.5 | 70.4 | 71.6 | 31.8 | 11.9 |
| Consumer Goods | 13.1 | 9.2 | 9.3 | 9.1 | 8.2 | 8.5 | 19.1 | 13.7 |

* 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*, December 7, 2005.

DOMESTIC ECONOMY

3. Domestic Investment

In the first half of 2005, private investment expanded 9.7%, largely due to expansions in the airline, high-tech and high-speed railway sectors. During the same period, investment by public enterprises increased 26.8%, while government investment fell by 1.8%.

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 _r | 2384.9 | 9.0 | 1,665.5 | 15.6 | 231.3 | -3.0 | 488.2 | -4.1 |
| 2001 _r | 1910.0 | -19.9 | 1,218.6 | -26.8 | 234.6 | 1.4 | 456.8 | -6.4 |
| 2002 _r | 1898.0 | -0.6 | 1,268.2 | 4.1 | 231.6 | -1.3 | 398.3 | -12.8 |
| 2003 _r | 1880.9 | -0.9 | 1,264.9 | -0.3 | 222.1 | -4.1 | 394.0 | -1.1 |
| 2004 _r | 2209.6 | 17.5 | 1,656.4 | 31.0 | 181.7 | -18.2 | 371.5 | -5.7 |
| 2005 _f | 2878.4 | 3.5 | 1,706.0 | 3.0 | 206.2 | 13.5 | 375.6 | 1.1 |
| Q1 _r | 508.1 | 10.8 | 1,767.5 | 10.5 | 203.0 | 48.8 | 384.6 | -0.1 |
| Q2 _r | 589.2 | 7.4 | 450.8 | 9.0 | 48.2 | 14.8 | 90.1 | -3.2 |
| Q3 _p | 567.9 | 0.3 | 421.9 | -2.0 | 47.0 | 14.3 | 99.0 | 3.8 |
| Q4 _f | 689.9 | -1.7 | 493.4 | -3.2 | 75.4 | 0.4 | 121.1 | 3.2 |

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

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

Source: DGBAS, 191st Commission on National Income Statistics Meeting, November 17, 2005.

DOMESTIC ECONOMY

4. *Production*

Industrial production in 2005 softened since February, but has displayed much stronger growth since August. It increased 1.3% in the first nine months of 2005, with manufacturing up 0.9% and construction increasing 14.8%.

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-Sep | 1.3 | -8.6 | 0.9 | 2.8 | 14.8 |

*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 grew less rapidly in January-September 2005. During the same period, the unemployment rate remained at the lowest level since 2001.

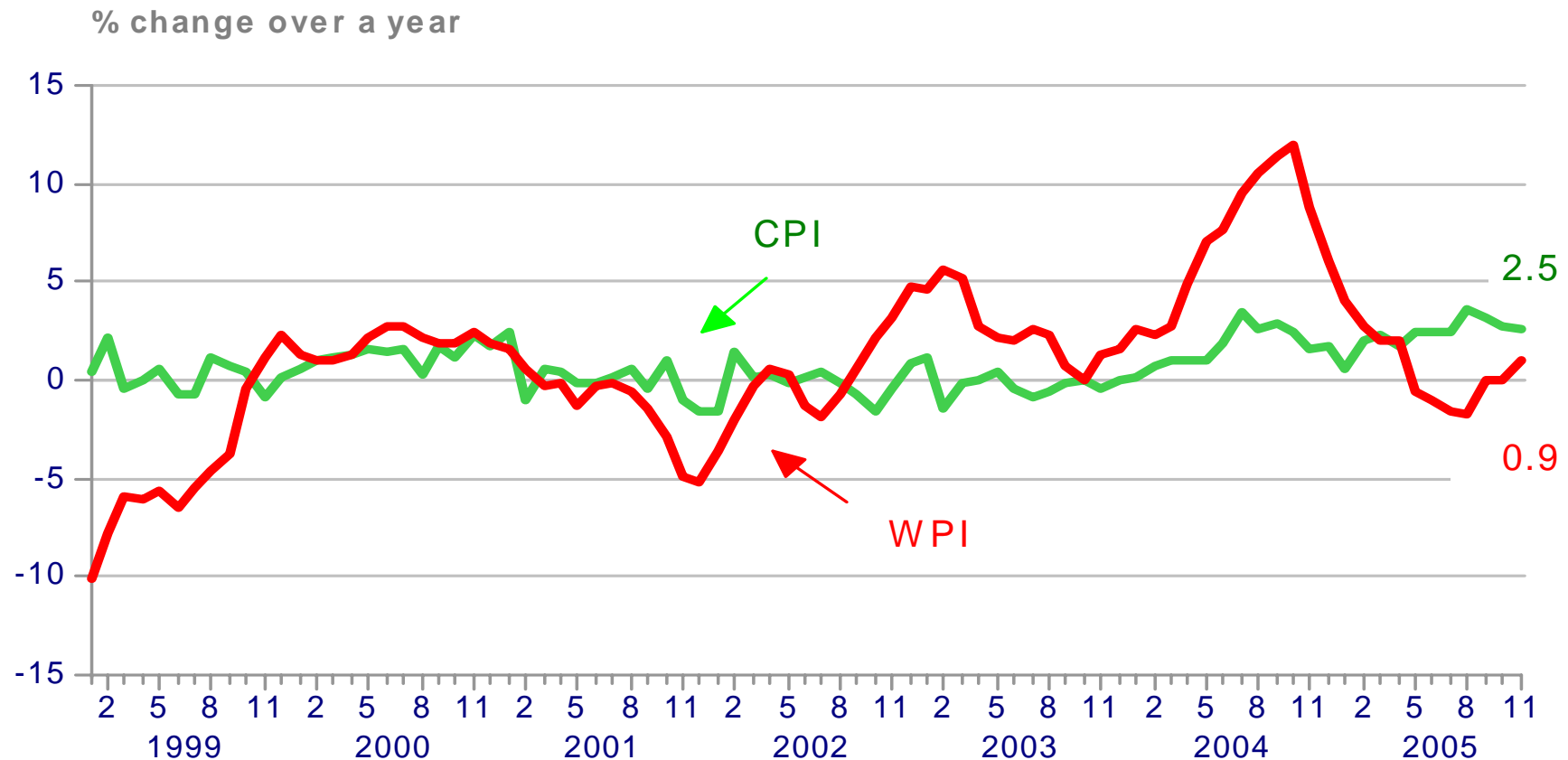
| | Labor Force | | Unemployment | | Nonagricultural employment | |
|---------------------|---------------|-----------------|---------------|-------------|----------------------------|------------|
| | 1,000 persons | Participation % | 1,000 persons | Rate % | 1,000 persons | yoy, % |
| 2001 | 9,832 | 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 |
| 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-Sep | 10,351 | 57.8 | 433 | 4.19 | 9,320 | 2.3 |

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

DOMESTIC ECONOMY

6. Prices

Thanks to rising prices of energy as well as agricultural products, wholesale prices in November increased 0.91% from a year ago. Consumer prices rose 2.47%, driven up by rising food costs and energy prices. During the first eleven months of 2005, consumer prices increased 2.3% with core prices (excluding fresh food and energy prices) increasing only 0.7%.



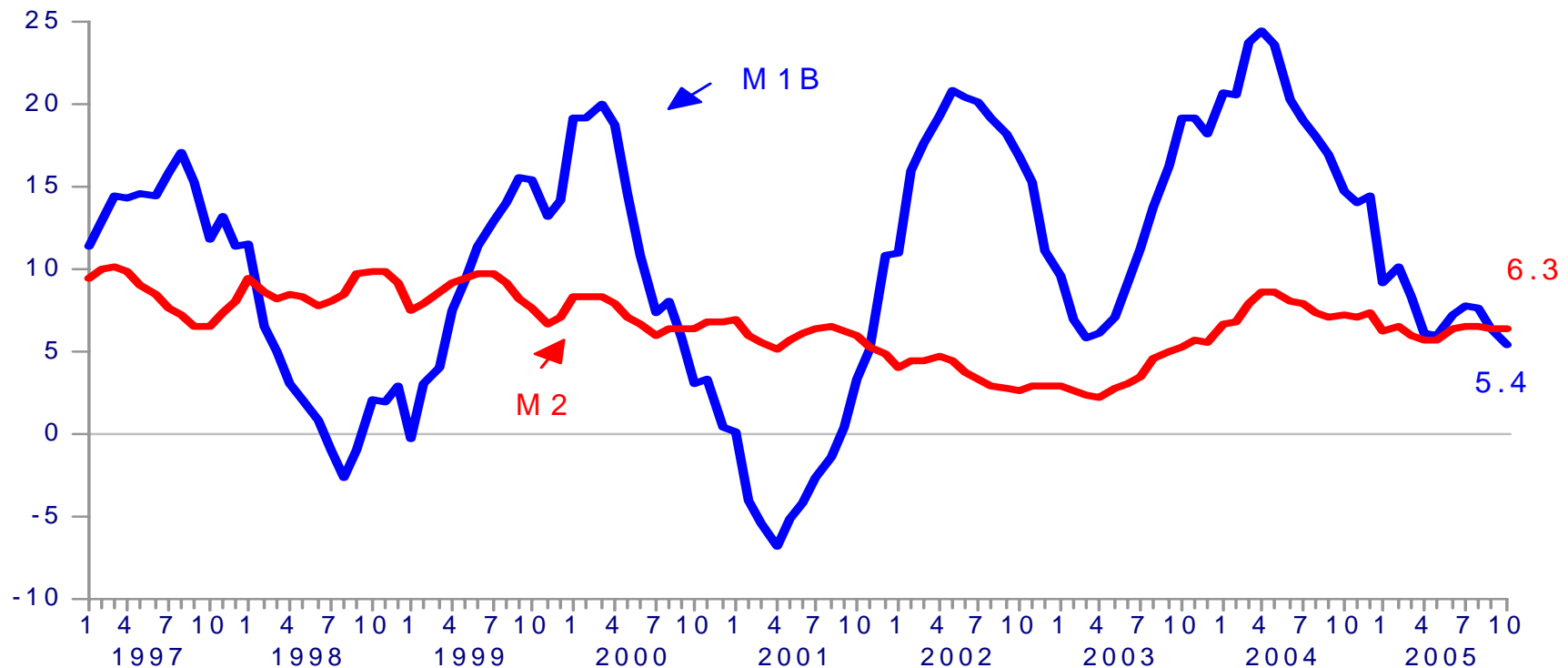
DOMESTIC ECONOMY

7. Money and Finance

(1) Money supply

Monetary supply expansion slowed down since June 2004. M1B and M2 growth decelerated to 5.4% and 6.3%, respectively, in October from a year ago, mainly due to net foreign capital outflows and overseas remittances by local residents .

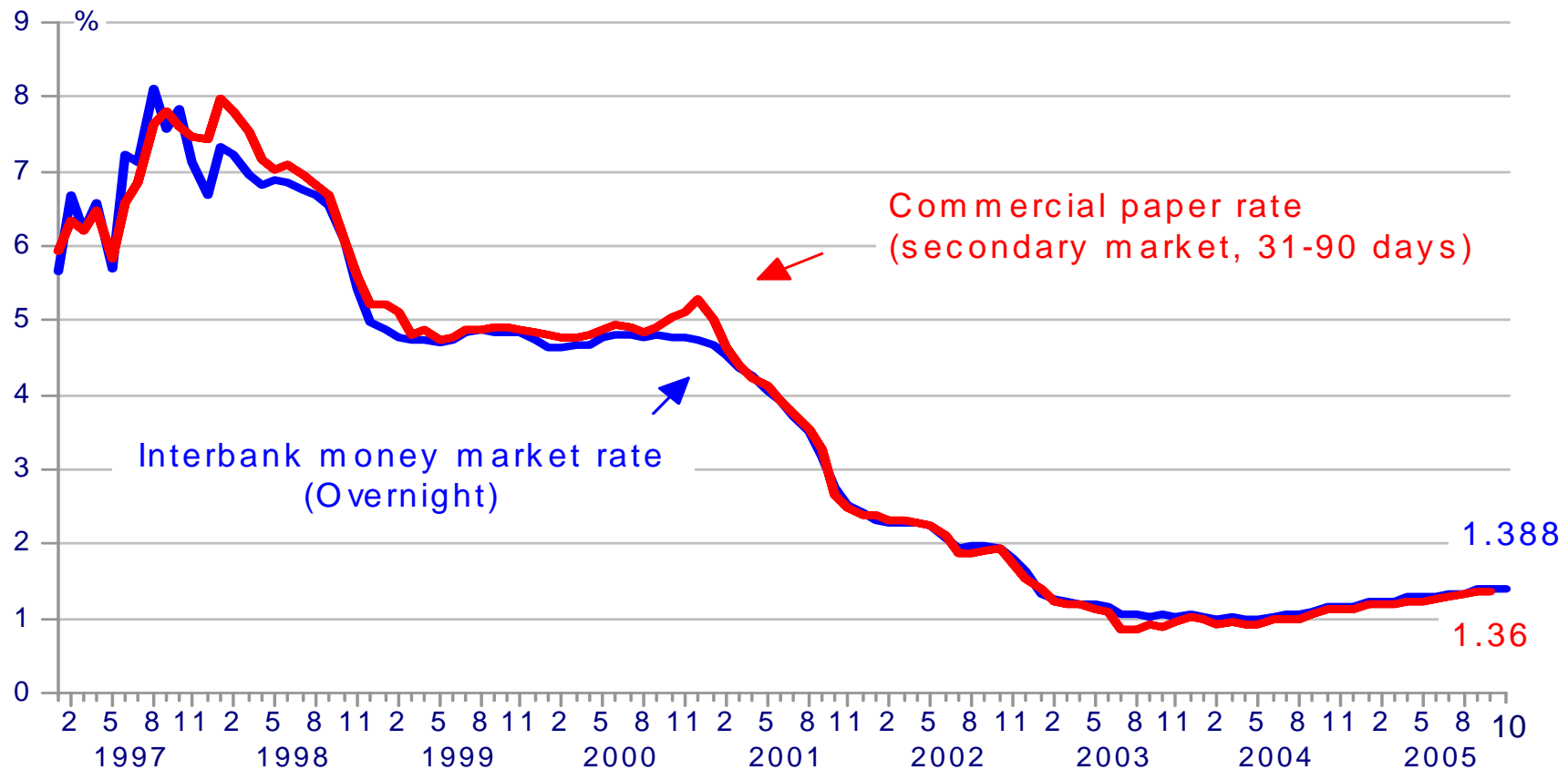
Daily average, % change over a year



DOMESTIC ECONOMY

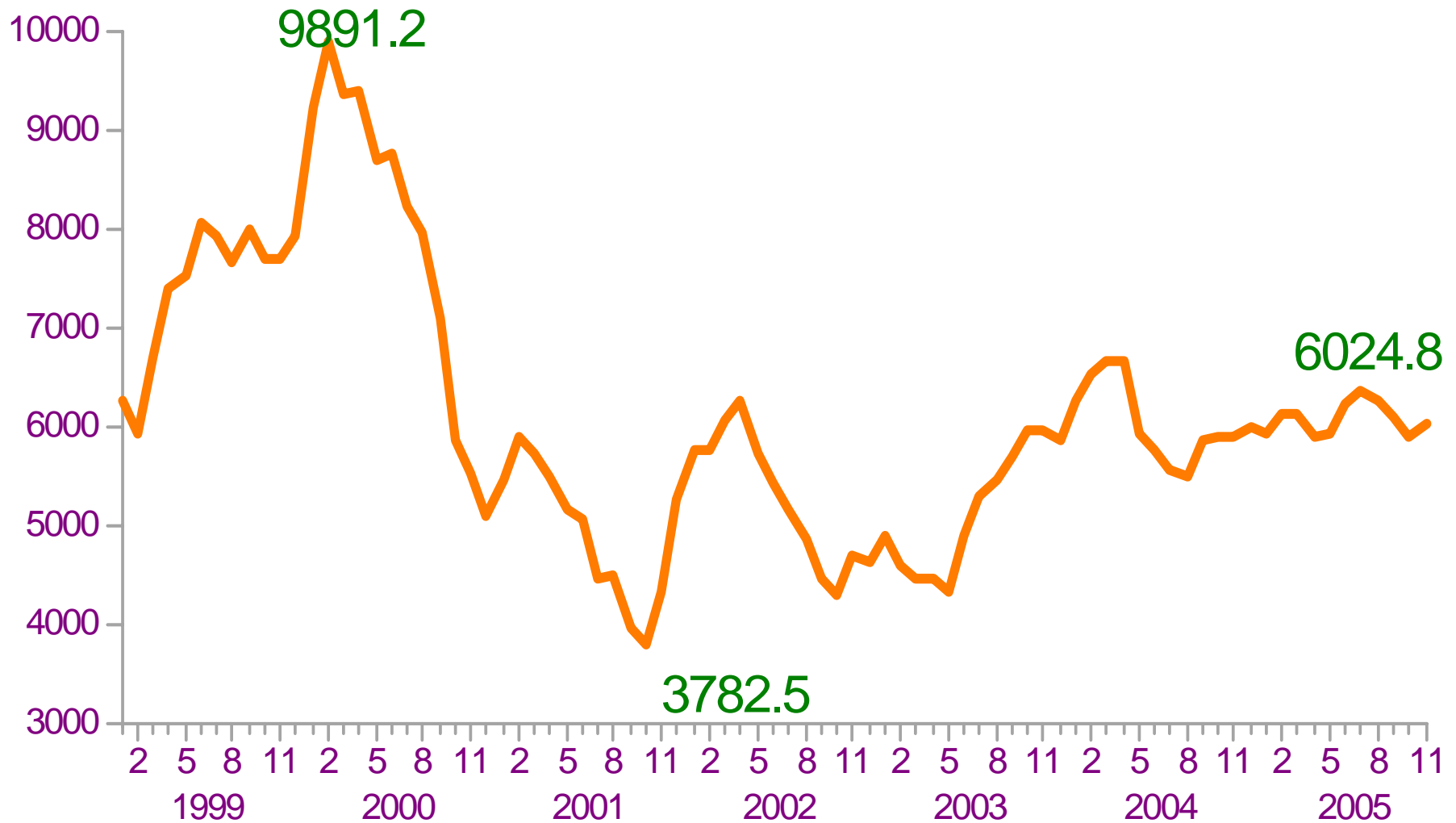
(2) Interest rates

Market interest rates have seen a slightly upward trend since the second half of 2004, but are still considered below their normal levels. In October 2005, commercial paper rate and interbank rate recorded 1.36% and 1.388%, respectively. The Central Bank raised the rediscount rate five times since October 2004, from 1.375% to 2.125% on September 16, 2005.



Taiwan Stock Exchange Index



































































































































Capitalization weighted, monthly average, 1966 Avg=100








II.8 DOMESTIC ECONOMY

8. Business Monitoring Indicators

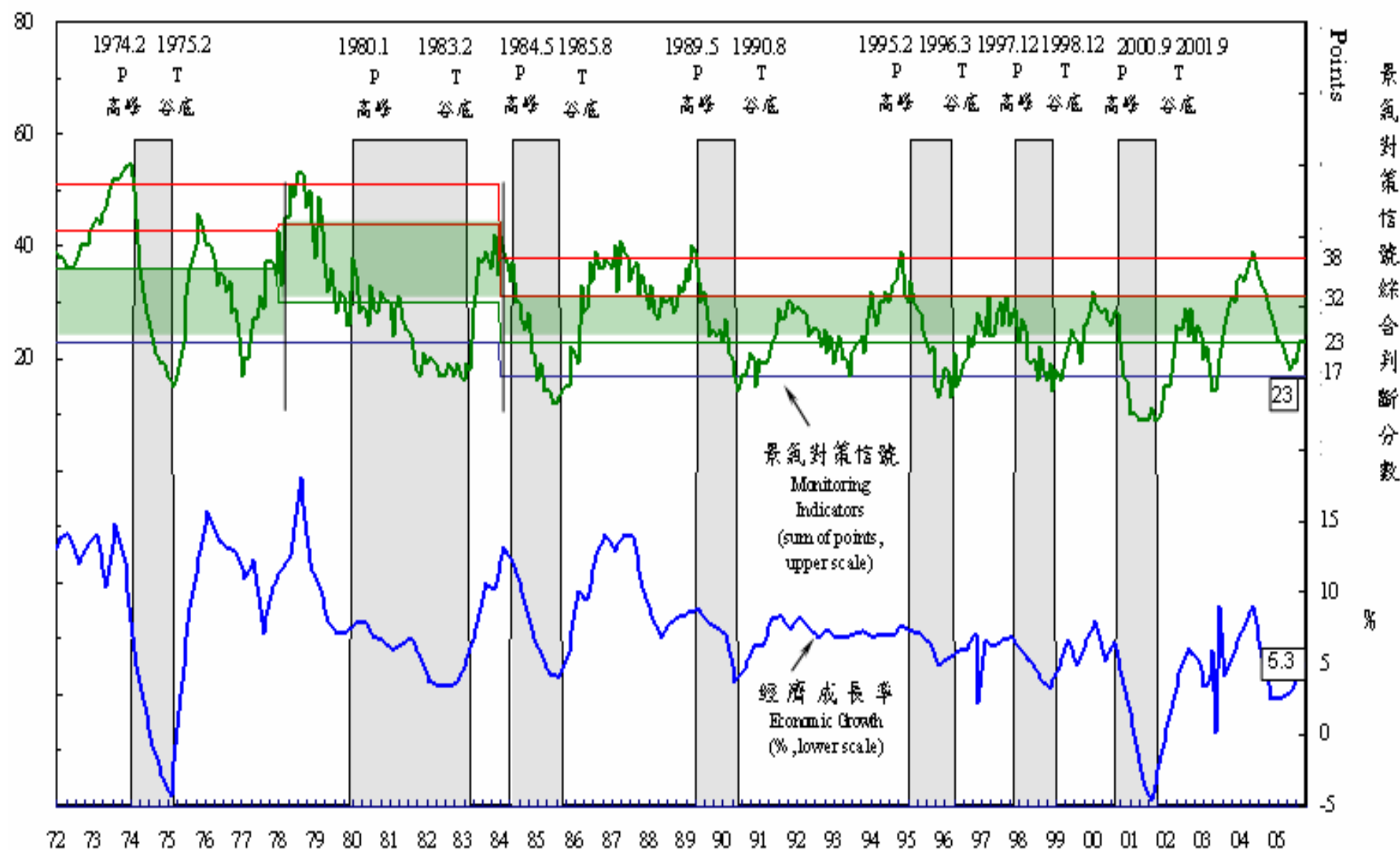
The monitoring indicators flashed “green” in September, for the third time since the ending of five successive months of “yellow-green,”

| | | 2004 | | | 2005 | | | | | | | | | |
|------------------|--|--|---|--|--|--|--|--|--|--|--|--|--|---|
| | | 10 | 11 | 12 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Total Scores | |  29 |  28 |  26 |  23 |  23 |  22 |  20 |  18 |  20 |  19 |  23 |  23 |  23 |
| Financial Sector | Monetary Aggregates M1B, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  5.1 |
| | Direct and Indirect Finance, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  7.5 |
| | Bank Clearings and Remittance, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  2.4 |
| | Stock Price Index, 1966=100, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  -0.1 |
| Real Sector | Manufacturing New Order Index, 1996\$, 1976.1=100, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  5.0 _p |
| | Exports, 2001\$, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  16.4 |
| | Industrial Production Index, 2001=100, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  9.2 |
| | Manufacturing Inventory-to-Sales ratio, % |  |  |  |  |  |  |  |  |  |  |  |  |  67.2 _p |
| | Nonagricultural Employment, yoy % |  |  |  |  |  |  |  |  |  |  |  |  |  2.2 |

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

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

Monitoring Indicators and Economic Growth

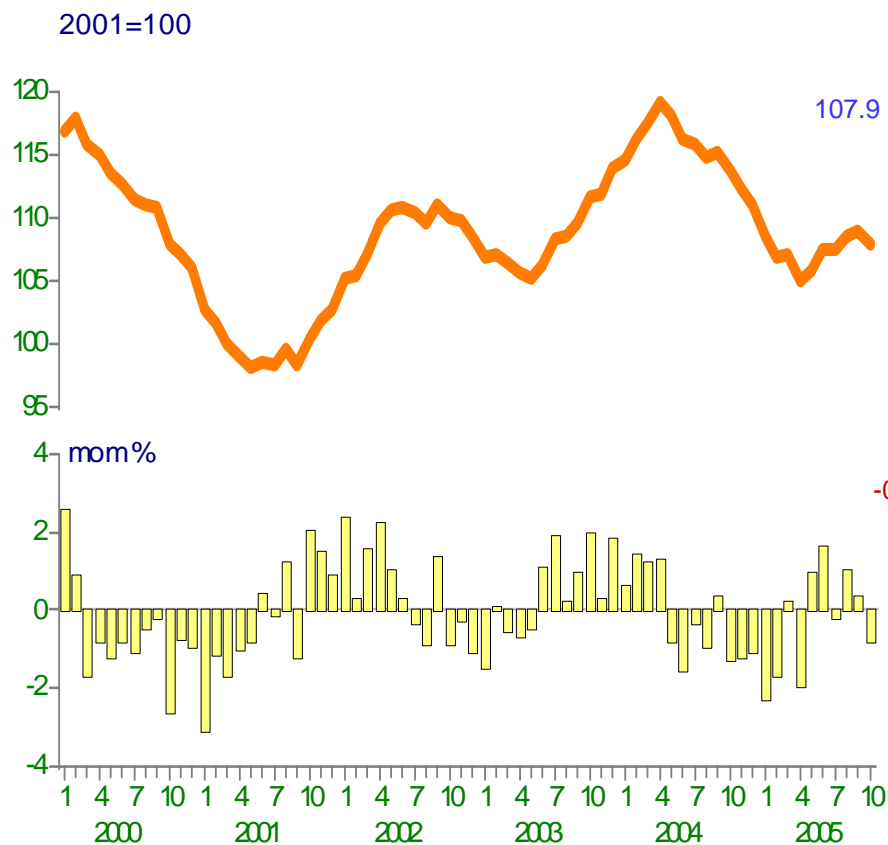


*經濟成長率按1993國民經濟會計制度(1993SNA)編算。

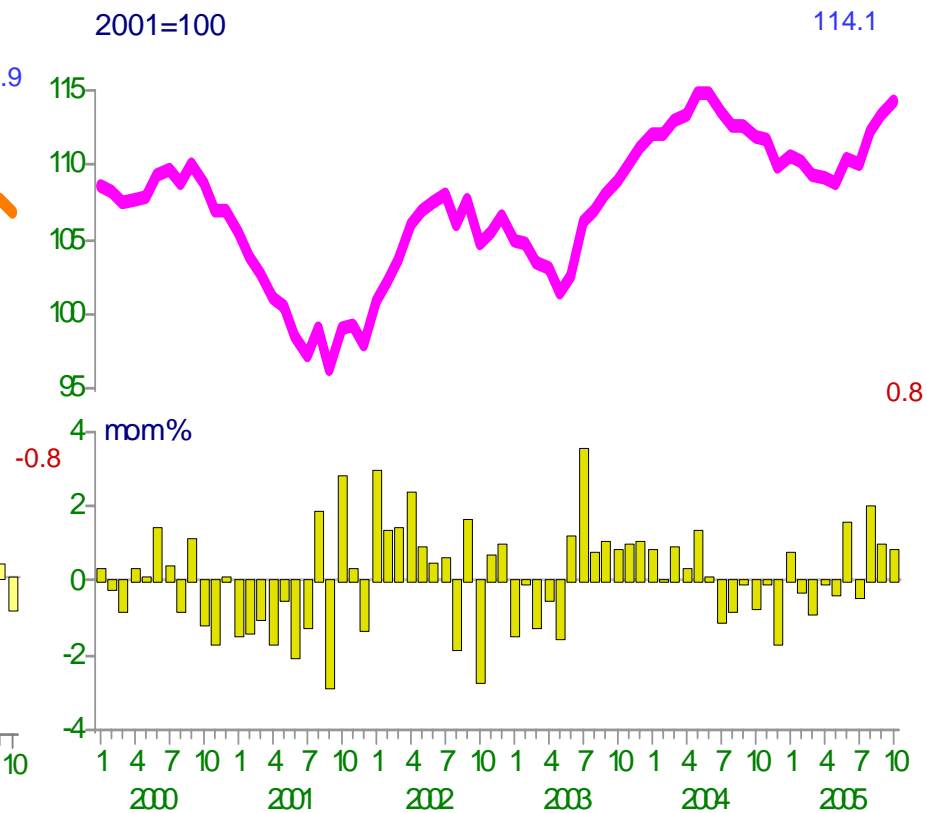
*Economic growth figures were readjusted based on 1993 System of National Accounts.

DOMESTIC ECONOMY

Composite Leading Index



Composite Coincident Index



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 October 2005.

| Business Expectation 3 months later | | | | | | Capacity Utilization | Profit |
|-------------------------------------|------------------|-----------------------------------|-----------|-----------|-------------|----------------------|--------|
| | | % of manufacturing firms surveyed | | | | | |
| | | Better (1) | Unchanged | Worse (2) | Net (1)-(2) | | |
| | | | | | | (%) | (%) |
| 2004 | 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 | 19 | 61 | 20 | -1 | 79.6 | 4.9 |
| | Jul | 17 | 60 | 23 | -6 | 79.6 | 4.8 |
| | Aug | 19 | 65 | 16 | 3 | 81.0 | 5.0 |
| | Sep _r | 12 | 66 | 22 | -10 | 80.8 | 5.2 |
| | Oct _p | 10 | 66 | 24 | -14 | 81.0 | 5.2 |

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 3.8%, with CPI increasing 2.2%.

ECONOMIC FORECASTS FOR TAIWAN

| Forecasting institution | Release time | 2005 | Difference from last projection | 2006 |
|-------------------------|--------------|------|---------------------------------|------|
| | | % | | % |
| World Bank | Nov 2005 | 3.6 | -0.6 | 4.1 |
| IMF | Sep 2005 | 3.4 | -0.6 | 4.3 |
| Global-Insight | Nov 2005 | 3.5 | 0 | 3.3 |
| CIER | Dec 2005 | 3.65 | +0.12 | 4.01 |
| TIER | Nov 2005 | 3.51 | +0.2 | 3.96 |
| DGBAS | Nov 2005* | 3.80 | - | 4.08 |
| Academia Sinica | Dec 2005 | 3.83 | +0.09 | 4.25 |

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

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 over banked, 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 rate rose from 3.0% in 2000 to around 5% in 2002. Although lowering to 4.1% in September 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 October 1 2005 and announced the lowering of commodity tax on oil products by 25% for three months until end of this year to lessen impact from the hiking oil price and diminish fears of inflation.
- ⇒ **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 than 10% 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 from 14 to 7 by the end of 2006;
 - ✓ 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.
- ⇒ **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.

Policy Initiatives

⇒ **Stimulus package:** In addition to a package introduced in May, including NT\$200 billion for SME business loans and NT\$300 billion for first-time homebuyers, another wide-ranging list of revitalization efforts has been announced:

✓ Revitalizing traditional industries

- A new program lasting 2 to 5 years, which aims to attract 305 companies to invest in the industrial zones, involving total investment capital of NT\$107 billion.
- 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 only have to bear a low interest rate of 1.96%, plus processing fees charged by banks.

Policy Initiatives

⇒ 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.
- A quota of 20,000 foreign laborers will be able to work in the "special processes" of the so-called "3K industries" (industries where working conditions are dirty, dangerous and generally "difficult," starting from January 1, 2006. A special allowance would be made so that the ratio of domestic hires to foreign labor hires for these jobs would be 3:2 while the overall ratio of domestic hires to foreign hires would remain at 85:15.
- A total of NT\$10 billion will be provided as emergency loans for laborers for the New Year holidays, with an interest rate at 2.98%.
- Feasibility studies will be conducted on the establishment of free trade zones in two west coastal industrial zones, Chang-bin and Yueen-lin.

Policy Initiatives

⇒ Stimulus package (continued)

✓ Revitalizing the marketplace

- The government will provide the 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 designate at least 15 locations as "Aboriginal tribe attractions" to attract more tourists. 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

⇒ Stimulus package (continued)

✓ Revitalizing the marketplace

- 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.
- Tax exemptions 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.

Policy Initiatives

⇒ Stimulus package (continued)

✓ Revitalizing the marketplace

- Lunar New Year cross-strait charter routes for next year will include Xiamen, and will be open to anyone who possesses valid visas for Taiwan and China. Total flights will also be increased 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

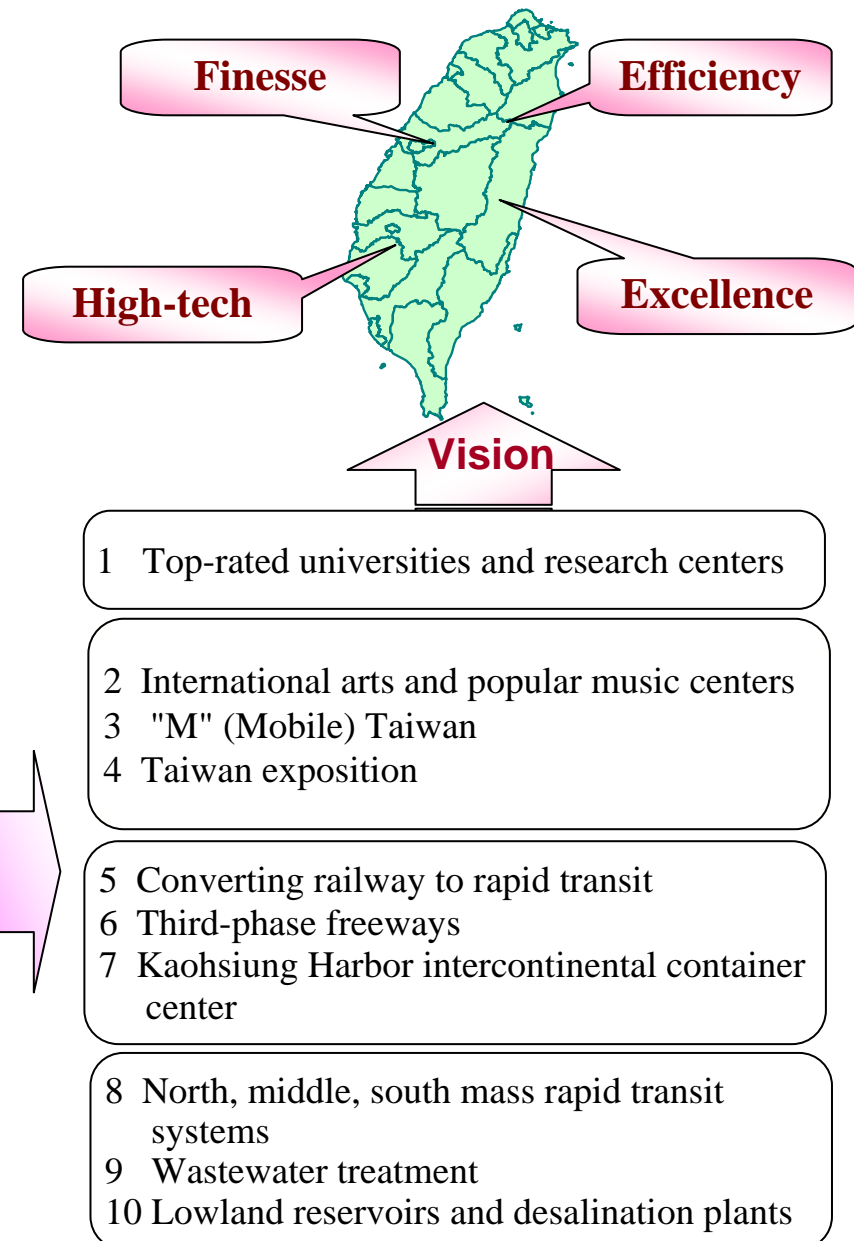
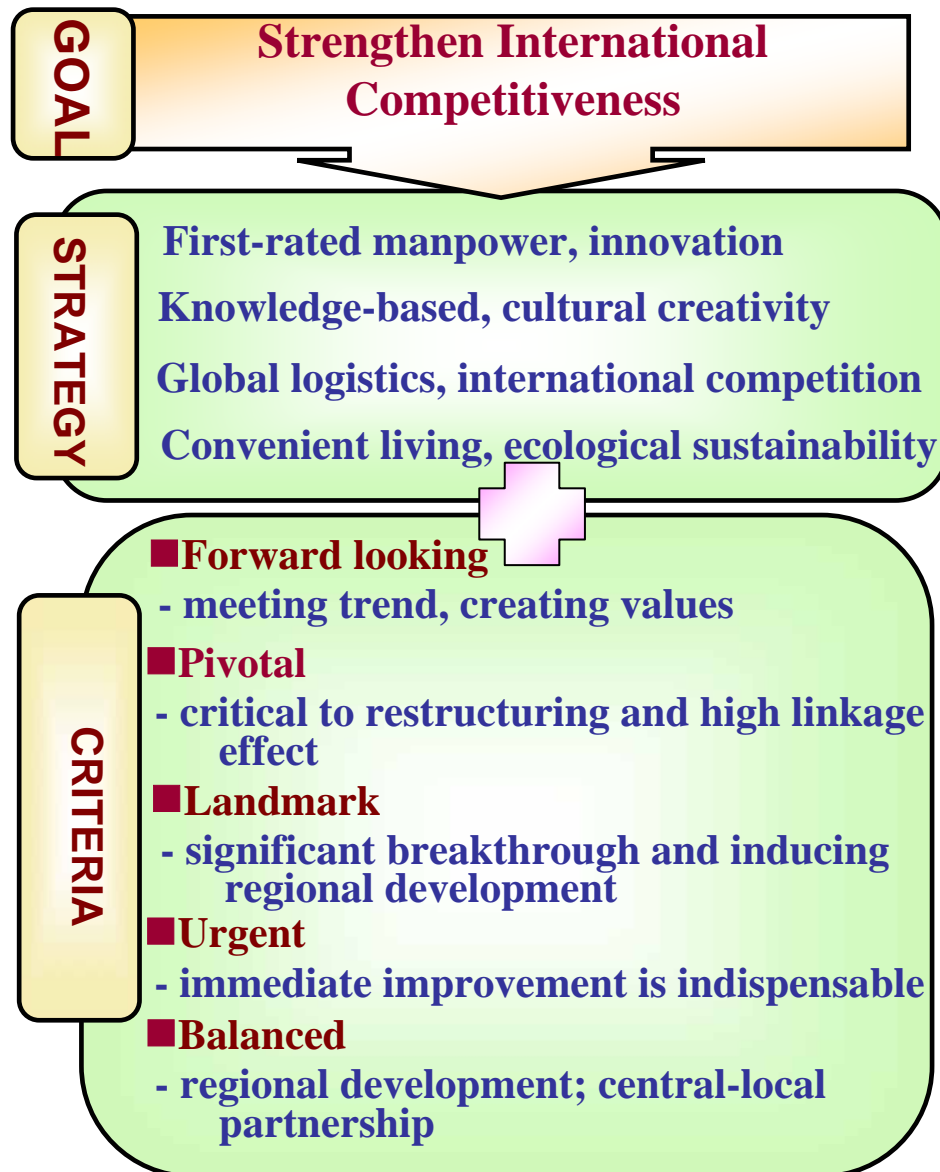
2. The Medium-term National Development Plan (2005-2008)

- ⇒ 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 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%.

National Development Plan--Macroeconomic Targets

| 2006 | Targets | 2006-2008 | 2006-2015 |
|--------|--|------------------------------|---------------|
| 4.5% | Growth of potential Economic growth GDP | 4.9% | 4.6% |
| 1.1% | Employment increase | 1.4% | 1.2% |
| 4.0% | Unemployment rate | 4.0% (2008) | 4.0% (2015) |
| < 2.0% | CPI increase | New Century Manpower Plan | |

The New Ten Projects



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

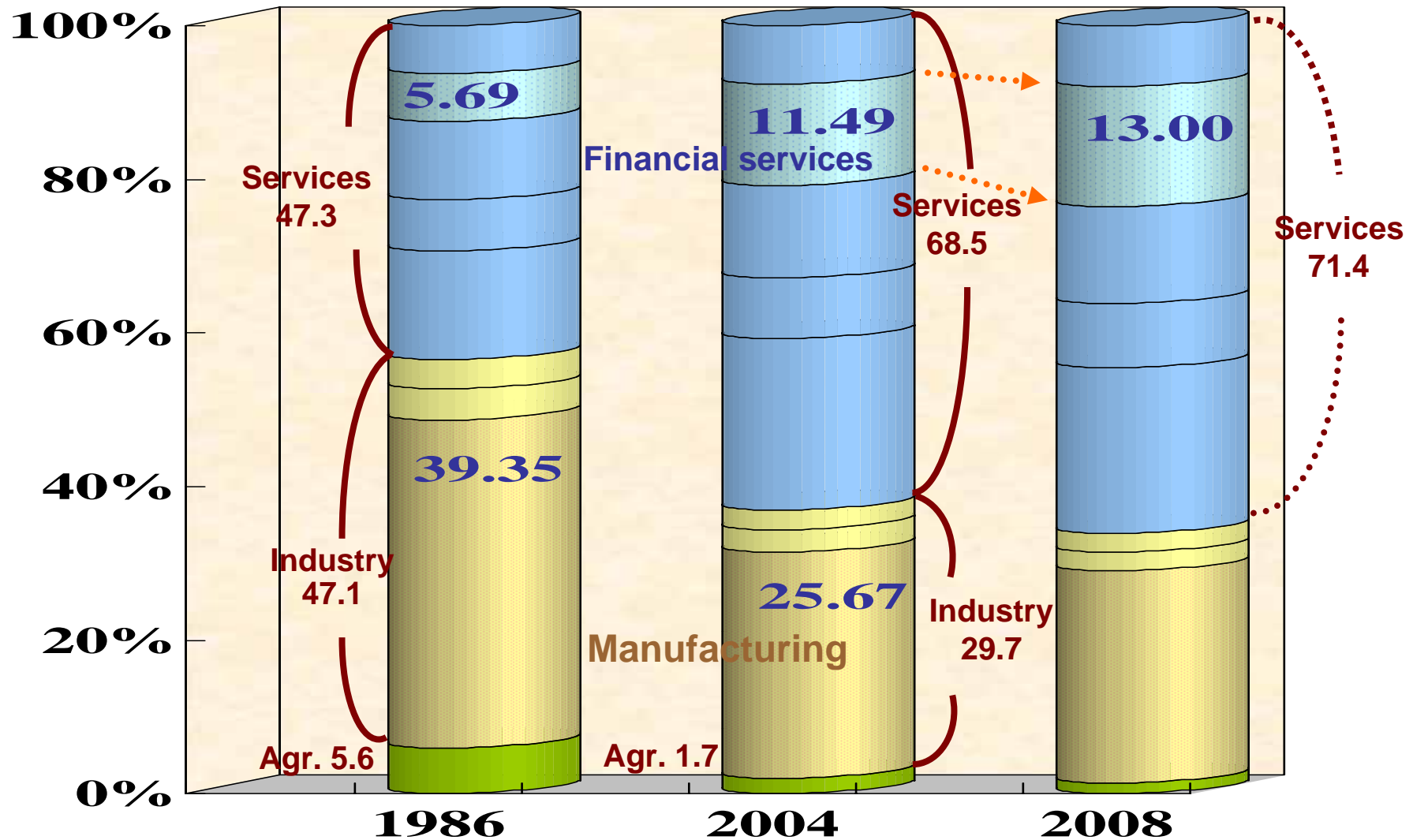
Strategies

- ⇒ 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