

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



Council for Economic Planning and Development

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GLOBAL ECONOMY

Latest IMF forecasts (April 2005) :

- ⇒ **World economic growth:** Estimate for 2004 and forecast for 2005 are 5.1% and 4.3%, respectively.
- **United States:** Growth momentum has slowed down since the second quarter. Growth is estimated to be 4.4% in 2004 and forecasted to be 3.6% in 2005.
 - **Japan:** Growth slowed sharply since the second quarter, and is estimated to reach 2.6% in 2004. With improvements in underlying fundamentals, growth is expected to recover to 0.8%.
 - **Euro area:** The pace of the expansion is expected to remain moderate, with growth estimate for 2004 and forecast for 2005 being 2.0% and 1.6%, respectively.
 - **Emerging Asia:** In developing Asia, NIEs and Mongolia, economic performance remains strong, although growth has slowed noticeably in 2004, with the exception of China. Growth is estimated to be 7.8% for 2004 and expected to slightly weaken to 7.0% in 2005
 - **Trade volume:** Estimate for 2004 and forecast for 2005 are 9.9% and 7.4%, respectively.

World Economic Outlook

	IMF			Global Insight		
	2004	2005	2006	2004	2005	2006
World Economic Growth %	5.1	4.3	4.4	4.1	3.3	3.1
United States	4.4	3.6	3.6	4.4	3.7	3.0
Japan	2.6	0.8	1.9	2.7	1.3	1.9
Euro area	2.0	1.6	2.3	1.8	1.5	1.9
Developing Asia	8.2	7.4	7.1	-	-	
Asia excluding Japan	-	-		7.3	6.2	6.0
Asian NIEs*	5.5	4.0	4.8	-	-	
China	9.5	8.5	8.0	9.5	8.2	7.3
World Trade Volume Growth %	9.9	7.4	7.6	8.9	4.2	4.3

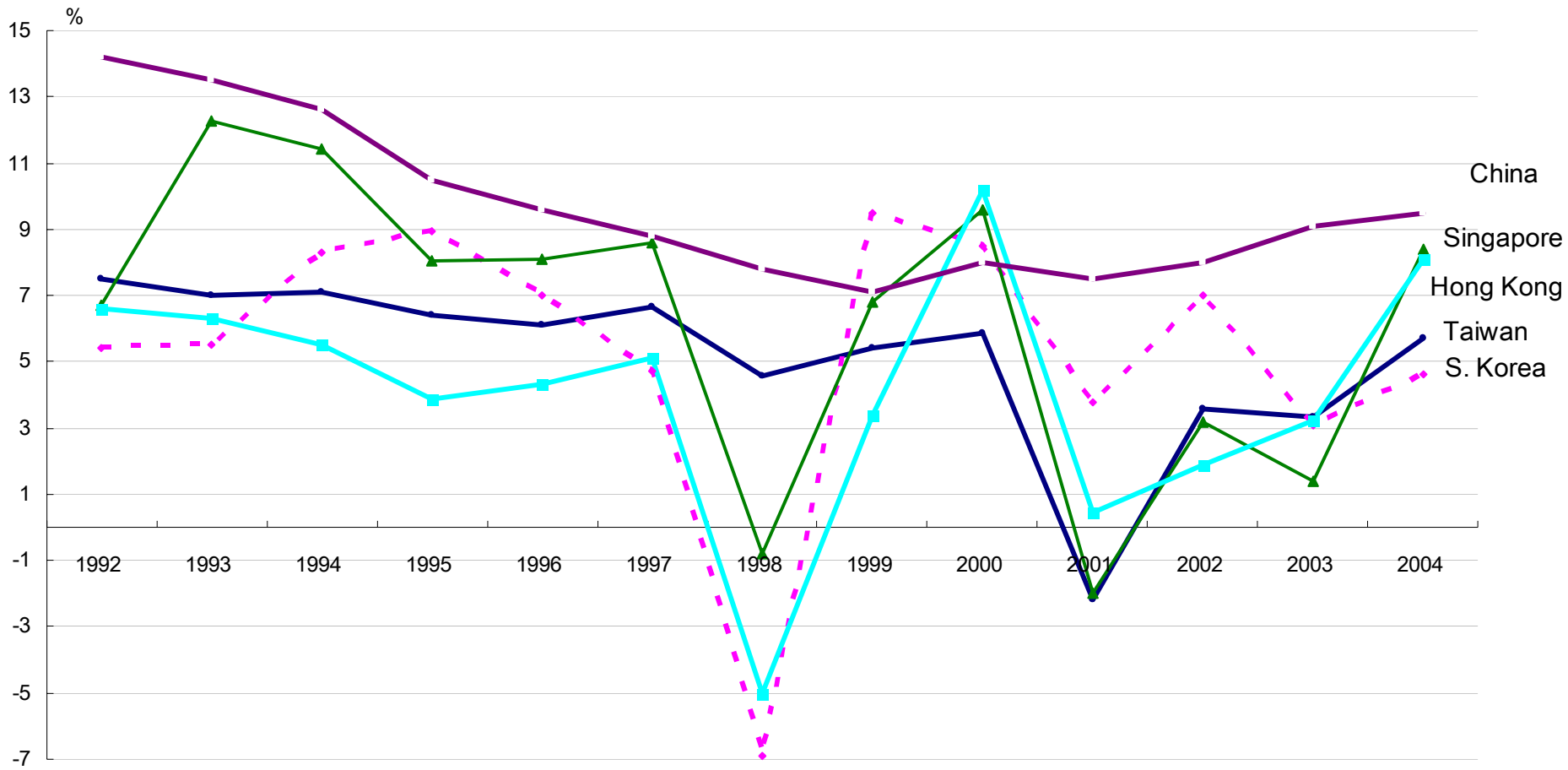
*Korea, Taiwan, Hong Kong, and Singapore.

Sources: 1. IMF, *World Economic Outlook*, April 2005.

2. Global Insight, April 15, 2005.

Asian Tigers and China: Economic Growth

China outperformed most Asian tigers during 2004.



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

DOMESTIC ECONOMY

1. Economic Growth

Thanks to a pick-up in global economic growth, Taiwan's exports and private investment both grew significantly faster in 2004 than in the preceding year. Private consumption also posted steady growth, reflecting the boost to confidence generated by falling unemployment. While there were signs that the growth momentum was softening in the second half of the year, preliminary estimates put the yearly growth rate at a robust 5.7%.

Contribution to Economic Growth

	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				
1998	4.3	6.2	3.9	0.5	1.8	1.7	0.1	-0.02	0.04	-1.9	1.2	3.1
1999	5.3	2.1	3.3	-0.9	0.4	-0.1	0.3	0.2	-0.8	3.3	5.4	2.2
2000	5.8	3.8	3.0	0.04	1.9	2.2	-0.1	-0.2	-1.2	2.0	8.8	6.8
2001	-2.2	-4.8	0.6	-0.1	-4.9	-4.6	0.04	-0.3	-0.4	2.6	-4.4	-7.0
2002	3.9	1.2	1.3	0.2	-0.3	0.4	-0.04	-0.6	0.0	2.8	5.4	2.6
2003	3.3	0.5	0.5	0.1	-0.4	-0.2	-0.1	-0.1	0.3	2.8	5.9	3.1
2004 _p	5.7	5.7	1.9	-0.1	2.6	3.1	-0.3	-0.2	1.3	0.02	8.9	8.9
Q1	6.7	6.1	2.4	0.1	1.9	2.1	-0.2	-0.02	1.8	0.6	11.0	10.4
Q2	7.9	5.2	2.6	-0.1	3.2	3.6	-0.2	-0.2	-0.5	2.7	14.7	12.0
Q3	5.3	4.9	0.9	-0.2	2.3	2.8	-0.3	-0.3	2.0	0.3	8.5	8.2
Q4 _p	3.3	6.4	1.8	-0.1	3.0	3.8	-0.7	-0.2	1.7	-3.2	2.2	5.3
2005 _f	4.2	3.0	1.8	0.01	1.4	1.2	0.2	0.0	-0.2	1.2	1.6	0.4

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

Source: Directorate-General of Budget, Accounting, and Statistics, 188th Commission on National Income Statistics Meeting, February 24, 2005.

DOMESTIC ECONOMY

2. Foreign Trade

(1) Two-way Trade

- ⇒ Exports and imports posted double-digit increase rates in 2004. The robust trend softened in the first quarter of 2005 with two-way trade increasing 10.1%.
- ⇒ In 2004, trade surplus registered US\$6.1 billion. It amounted to US\$0.3 billion in the first three months of 2005.

Foreign Trade

Unit: 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-Mar	85.4	10.1	42.8	7.8	42.6	12.6	0.3

Source: Ministry of Finance.

DOMESTIC ECONOMY

(2) Major trading partners

- ⇒ Exports to Hong Kong and Mainland China, among major trading partners, have expanded the fastest since 2002.
- ⇒ Exports to and imports from the United States returned to positive growth in 2004 after declining for three consecutive years.

Changes in Two-way Trade with Major Trading Partners

	Exports (annual change rate %)					Imports (annual change rate %)				
	USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*	USA	Japan	Europe	Hong Kong and Mainland China	ASEAN 6*
1999	5.2	27.6	3.5	11.3	21.3	0.1	13.3	-14.6	9.2	15
2000	12.7	39.5	16.7	24.5	29.3	27.6	26	8.1	27.1	40.4
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	-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-Mar	8.4	10.8	14.6	28.3	33.7	28.6	33.7	31.1	48.0	16.1
	7.3	8.8	-1.4	8.0	13.4	3.6	12.3	10.1	24.6	-3.9
	15.5	8.0	13.3	36.5	13.6	12.3	26.7	12.4	11.6	11.0

Note: Figures in red color refer to percentage shares.

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

Source: Ministry of Finance.

DOMESTIC ECONOMY

(3) Trade Structure

- ⇒ The share of heavy and technology-intensive industrial products of total exports continued to rise after it shrank slightly in 2001. It rose considerably to 77.2% in 2004 and further to 77.7% in the first quarter of 2005.
- ⇒ The share of imports of capital goods increased to 21.4% in 2004 from 20.5% in 2003, reflecting faster investment expansion.

Composition of Foreign Trade

	Composition (%)						Change (yoy % in US\$)	
	1996	2001	2002	2003	2004	2005 Jan-Mar	2004	2005 Jan-Mar
Exports	100	100	100	100	100	100.0	20.7	7.8
Agricultural Products	0.4	0.2	0.3	0.3	0.2	0.2	0.7	1.1
Processed Agricultural Products	3.1	1.4	1.3	1.2	1.2	1.1	17.7	6.4
Industrial Products	96.5	98.4	98.4	98.5	98.6	98.7	20.8	7.8
Heavy & Technology-intensive Industry*	60.5	71.1	73.1	75.3	77.2	77.7	23.6	8.2
Others	36.0	27.3	25.3	23.2	21.4	21.0	11.5	6.5
Imports	100	100	100	100	100	100.0	31.9	12.6
Capital Goods	17.9	25.0	23.0	20.5	21.4	21.1	38.2	14.4
Raw Materials	69.0	65.7	67.7	70.5	70.4	70.1	31.8	11.7
Consumer Goods	13.1	9.2	9.3	9.1	8.2	8.7	19.1	15.4

* 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*, March 7, 2005.

DOMESTIC ECONOMY

3. Domestic Investment

Thanks to the entrenchment of the global recovery and the resultant acceleration in private investment, total investment has been growing strongly in 2004. Having rebounded to positive growth in the first quarter of the year, it rose 19.4% in the second quarter, and shifted to a softer pace in the second half of the year. It registered an increase of 15.4% for the whole year.

Real Gross Fixed Capital Formation

NT\$ billion; yoy %

	Total		Private investment		Public enterprises investment		Government investment	
	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate	Amount	Growth rate
2000	2282.0	8.6	1565.6	15.7	230.9	-3.5	485.5	-4.7
2001	1811.6	-20.6	1108.9	-29.2	240.3	4.1	462.4	-4.8
2002	1773.0	-2.1	1136.7	2.5	234.7	-2.3	401.6	-13.1
2003	1737.5	-2.0	1120.0	-1.5	223.6	-4.8	393.9	-1.9
2004	1971.1	15.4	1417.9	28.2	183.0	-15.1	370.2	-4.2
2005 _f	2120.7	7.6	1543.4	8.9	202.9	10.9	374.4	1.1
Q1 _f	441.4	12.6	338.8	17.7	28.8	-0.7	73.8	-1.9
Q2 _f	507.7	7.2	371.9	8.8	45.9	9.1	89.8	0.07
Q3 _f	525.6	8.3	383.4	9.7	47.1	9.4	95.1	2.6
Q4 _f	646.1	4.3	449.2	2.5	81.2	17.8	115.7	2.9

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

Source: DGBAS, 188th Commission on National Income Statistics Meeting, February 24, 2005..

DOMESTIC ECONOMY

4. Production

Industrial production posted double-digit growth in the first half of 2004, and showed signs of slowdown in the second, increasing 9.8% for the whole year. It contracted by 0.6% in the first quarter of 2005, with manufacturing decreasing 1.2%.

Growth of Industrial Production

%

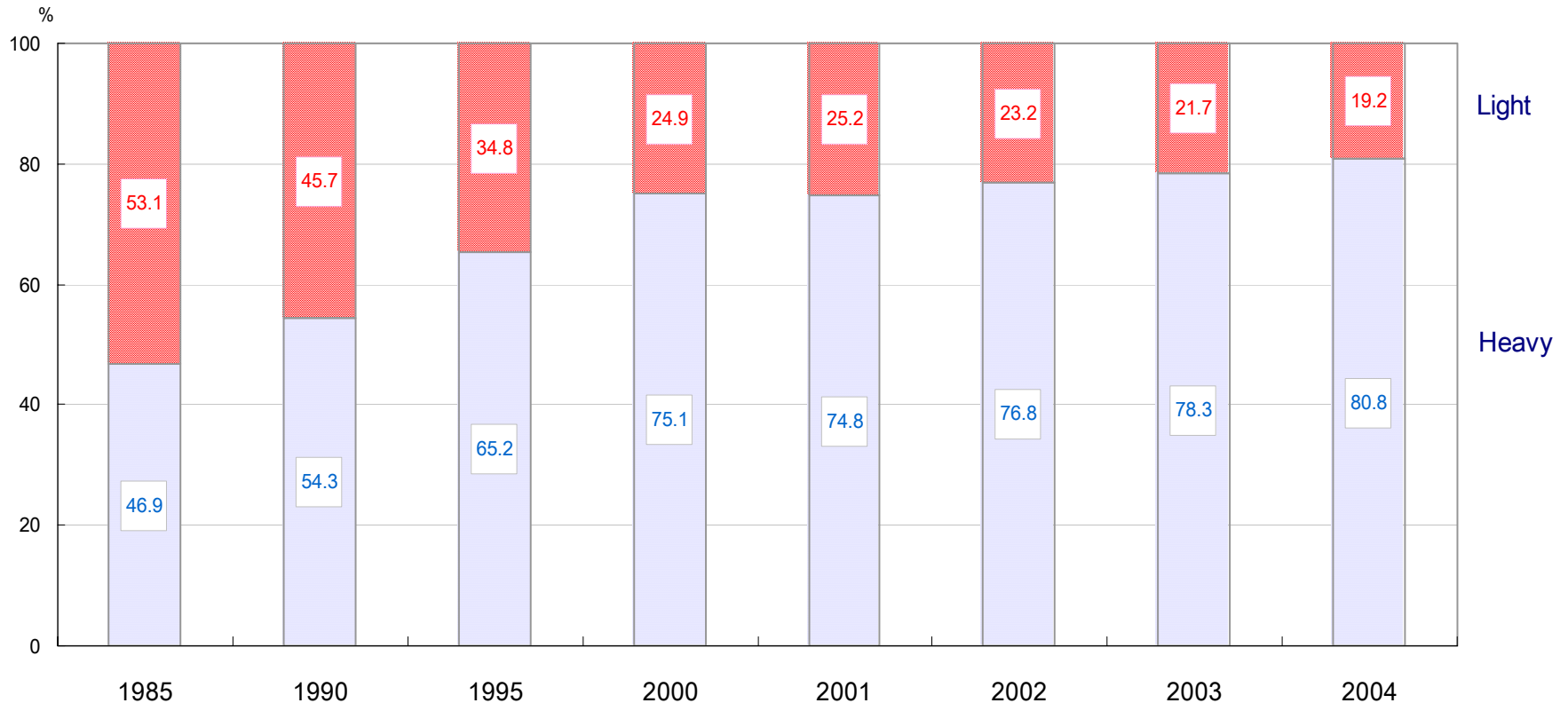
	Industrial production	Mining	Manufacturing*	Electricity, gas, and water	Construction
2001	-7.8	0.1	-8.4	1.1	-11.2
2002	7.9	8.3	9.4	3.3	-20.7
2003	7.1	-7.4	7.4	3.8	8.9
2004	9.8	-4.3	10.5	3.0	5.4
Q1	14.0	-10.4	15.3	4.8	-4.0
Q2	15.2	-5.5	16.3	6.8	1.8
Q3	8.7	-1.9	9.8	0.6	-4.7
Q4	2.5	1.9	2.0	0.2	26.3
2005 Jan-Mar	-0.6	-4.3	-1.2	2.6	16.2

*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*.

Structure of the Manufacturing Industry

The share of heavy industry in manufacturing production continued to increase, from 78.3% in 2003 to 80.8% in 2004.



DOMESTIC ECONOMY

5. Employment

Nonagricultural employment has displayed marked improvement since the third quarter of 2003. The unemployment rate reached a historical high in 2002, and gradually lowered to 4.4% in 2004 and further to 4.2% in the first quarter of 2005.

	Labor Force		Unemployment		Nonagricultural employment	
	1,000 persons	Participation %	1,000 persons	Rate %	1,000 persons	yoy, %
2001	9,832	57.2	450	4.57	8,677	-0.9
2002	9,969	57.3	515	5.17	8,745	0.8
2003	10,076	57.3	503	4.99	8,877	1.5
2004	10,240	57.7	454	4.44	9,144	3.0
Q1	10,160	57.4	460	4.53	9,038	2.6
Q2	10,216	57.6	453	4.44	9,114	3.1
Q3	10,291	57.9	473	4.60	9,181	3.2
Q4	10,295	57.7	430	4.18	9,242	3.1
2005 Jan-Mar	10,314	57.7	429	4.16	9,284	2.7

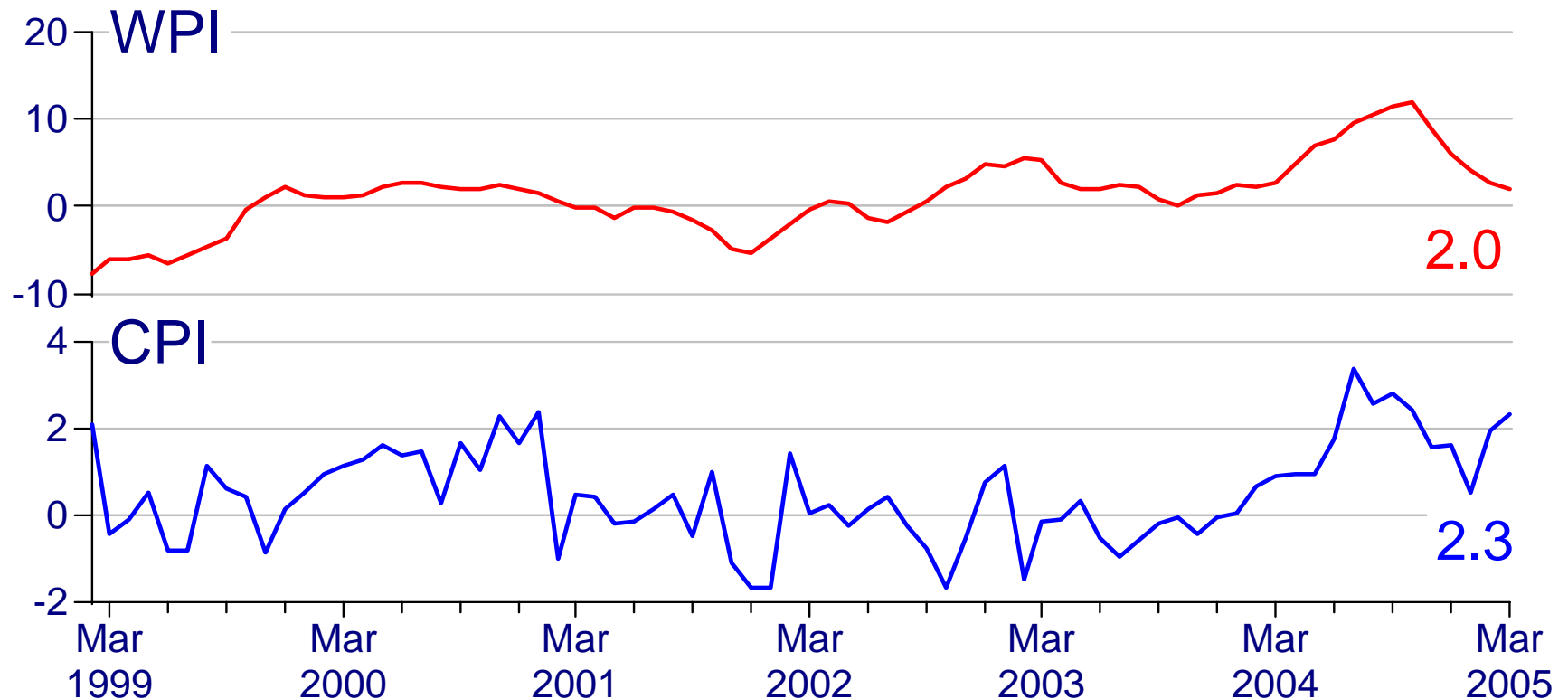
Source: Directorate General of Budget, Accounting, and Statistics.

DOMESTIC ECONOMY

6. PRICES

Prices rose much faster during the second and third quarters of 2004 and softened in the last quarter with the fluctuations in energy prices. Wholesale prices and consumer prices rose 2.0% and 2.3%, respectively, in March 2005.

Price Change (% change over a year)



Source: CEIC.

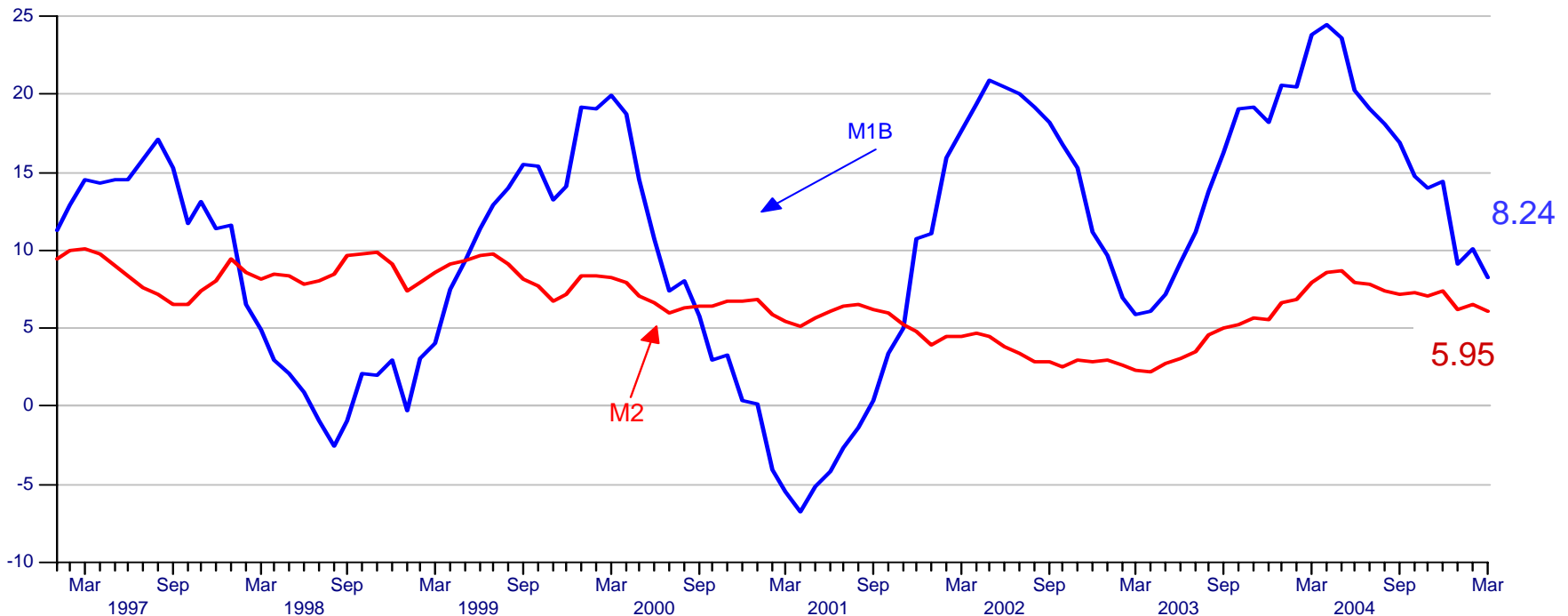
DOMESTIC ECONOMY

7. Money & Finance

(1) Money Supply

In the first half of 2004, monetary supply expanded increasingly faster with a brighter than expected performance of the economy. It then slowed down since June 2004, mainly due to a relative higher base of last year for comparison. After it displayed a faster pace in February, money supply growth lowered again in March, mainly due to the influx of currency back to the banking system after the Chinese New Year Holidays and the reduction of net foreign capital inflows.

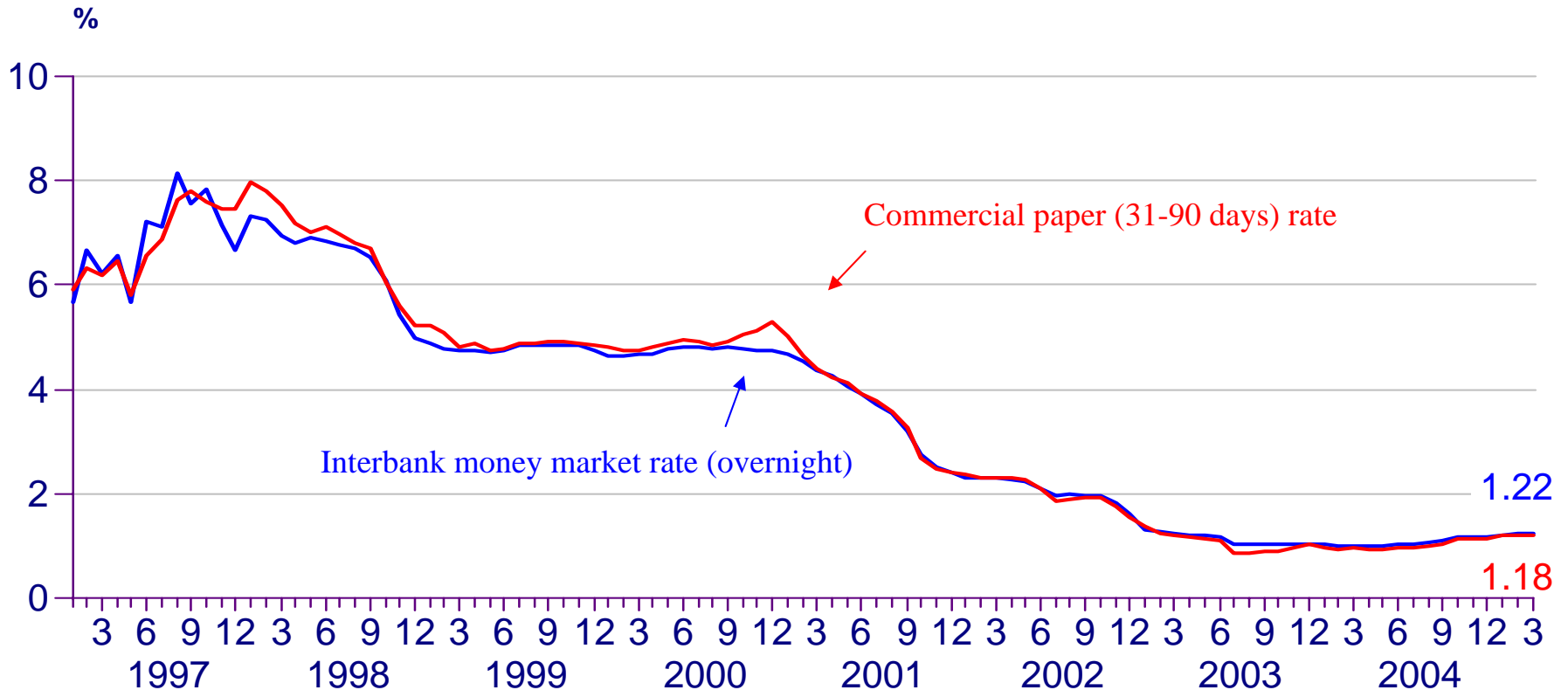
Daily average, % change over a year



DOMESTIC ECONOMY

(2) Interest Rates

Market interest rates have seen a slightly upward trend since the second half of 2004, reflecting a tightening of funds. In March 2005, commercial paper rate and interbank rate recorded 1.18% and 1.22%, respectively. The Central Bank raised the rediscount rate from 1.375% to 1.625% on October 1 of last year, and then twice more to 1.75% on December 31 and to 1.875% on March 25 of this year, reflecting a gradual shift of monetary policy to a neutral stance.



Source: CEIC.

Taiwan Stock Price Index

Capitalization weighted, monthly average, 1966=100



II.8 DOMESTIC ECONOMY

8. Business Monitoring Indicators

The monitoring indicators flashed "yellow-green" for the first time since July 2003, signaling the economy's continued shift to a slower pace of expansion after the 15-month period in which they continuously flashed either "yellow-red," "red" or "green."

		2004										2005		
		3	4	5	6	7	8	9	10	11	12	1	2	3
Total Scores		36	37	39	36	35	33	32	29	28	26	23	23	21
Financial Sector	Monetary Aggregates M1B, yoy%													8.3
	Direct and Indirect Finance, yoy%													7.5 _p
	Bank Clearings and Remittance, yoy %													-11.9
	Stock Price Index, 1966=100, yoy%													-8.3
Real Sector	Manufacturing New Order Index, 1996\$, 1976.1=100, yoy %													4.1 _p
	Exports, 2001\$, yoy %													6.9 _p
	Industrial Production Index, 2001=100, yoy%													-0.2 _p
	Manufacturing Inventory-to-Sales ratio, %													59.8 _p
	Nonagricultural Employment, yoy%													

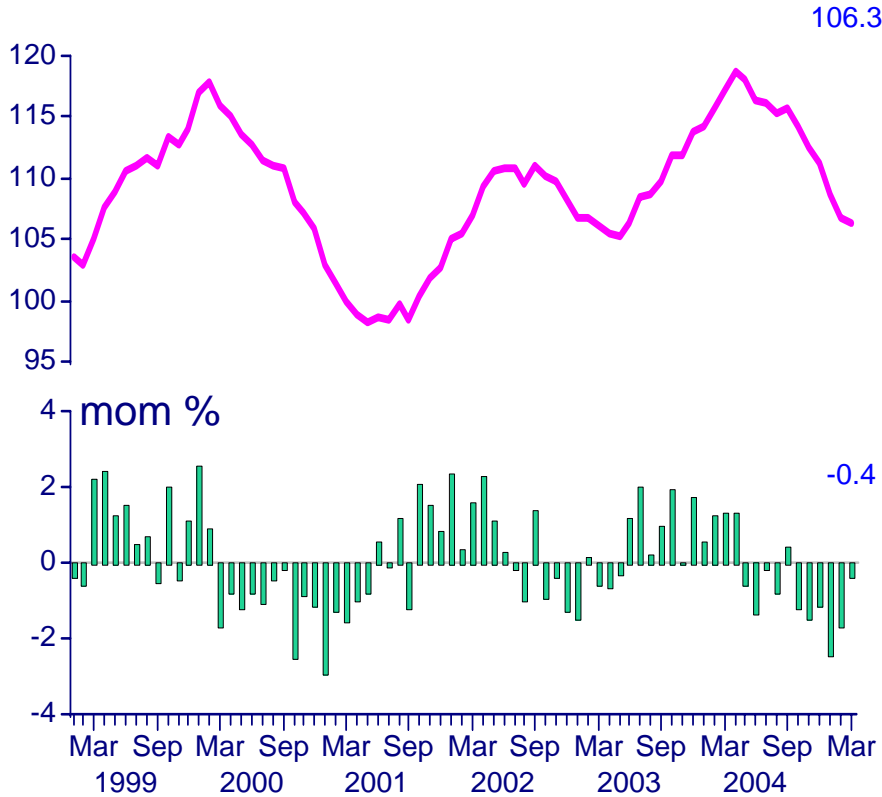
Overheating
 Transition in need of watching
 Steadily moving forward
 Transition in need of watching
 Recession

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

DOMESTIC ECONOMY

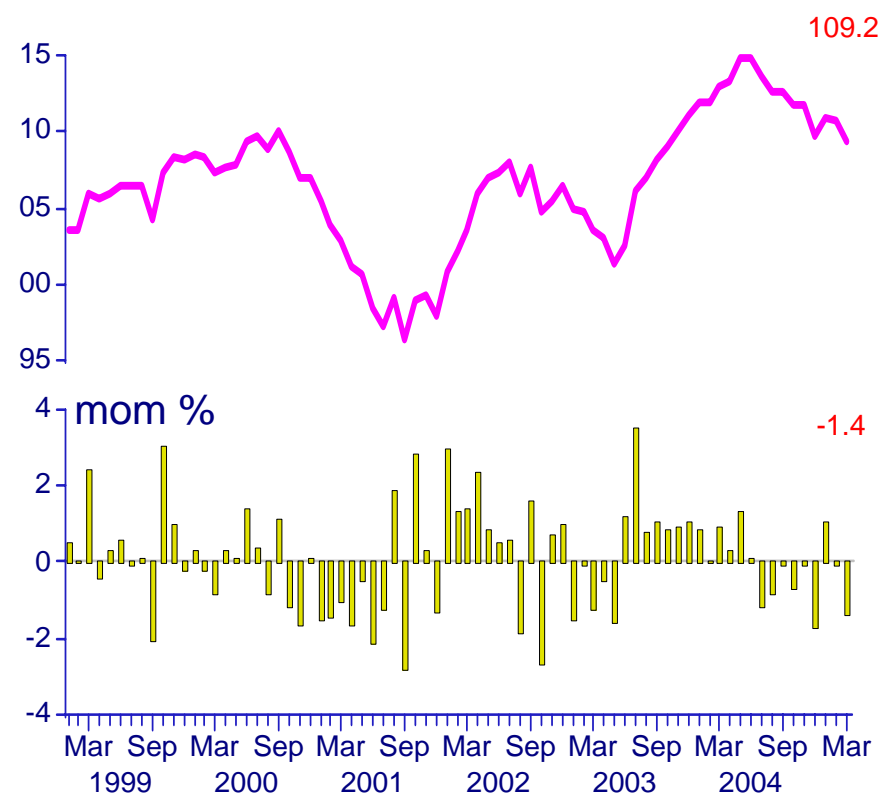
Composite Leading Index

2001=100



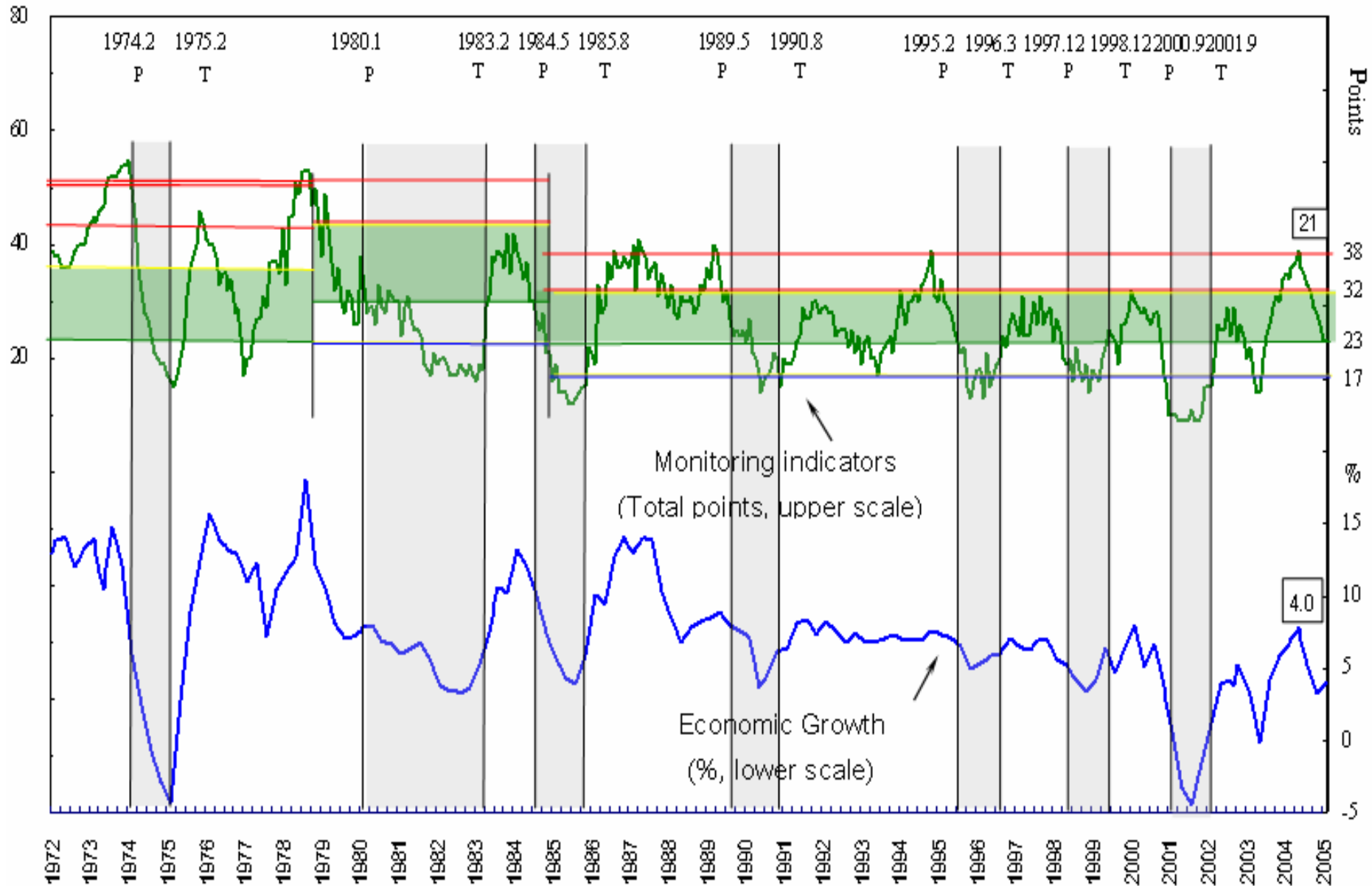
Composite Coincident Index

2001=100



Source: CEPD.

Monitoring Indicators and Economic Growth



DOMESTIC ECONOMY

According to surveys conducted by the Council for Economic Planning and Development, more manufacturing firms continued to keep optimistic than pessimistic in March 2004.

		Business Expectation 3 months later				Capacity Utilization	Profit
		% of manufacturing firms surveyed					
		Better (1)	Unchanged	Worse (2)	Net (1)-(2)		
2005	Mar	19	70	11	8	80.9	5.4
	Apr	13	74	13	0	80.5	5.2
	May	14	69	17	-3	80.3	5.2
	Jun	12	73	15	-3	80.3	5.0
	Jul	12	71	17	-5	80.7	5.1
	Aug	16	71	13	3	80.5	5.0
	Sep	14	68	18	-4	80.4	5.0
	Oct	13	71	16	-3	80.4	5.0
	Nov	12	68	20	-8	80.1	4.9
	Dec	12	71	17	-5	80.3	4.8
	Jan	22	64	14	8	80.3	4.9
	Feb _r	23	67	10	13	77.0	4.6
	Mar _p	19	74	7	12	80.5	5.1

PROSPECTS

2004

- ⇒ Exports continued posting double-digit growth in the last quarter of 2004, though at a somewhat more subdued pace than in the first three quarters.
- ⇒ The improving job market and the positive wealth effects created by the pepping-up of the stock and real estate markets helped bolster private consumption in the first half of the year. Consumer sentiment was dampened under the impact of soaring oil prices, the expectation of interest rate rises, and the weakening of the stock market in the third quarter, but regained vigor in the fourth.
- ⇒ Private investment grew at a double-digit rate, driven by plant expansions and upgrading spending in the opto-electronic and semiconductor industries, addition of new airplanes, and such large-scale projects as the high-speed railway.
- ⇒ Economic growth is preliminarily estimated to have reached 5.7%, with a moderate inflation of 1.6%.

2005

- ⇒ Export trade is expected to cool off from exceptionally rapid growth to more sustainable levels following signs of weaker global expansion. Given the improving situation in the job market, private consumption is forecast to grow steadily.
- ⇒ With the continuing construction of the high-speed railway, 12-inch wafer plants, naphtha cracker complexes, and other such large-scale projects, private investment will remain an important engine of growth.
- ⇒ With domestic economic prospects remaining buoyant and forthcoming public investment and spending, the economic growth is targeted to reach over 4.5% with the CPI increasing no more than 2%.

ECONOMIC FORECASTS FOR TAIWAN

		2004	2005	Difference from last projection	2006
		%	%		%
World Bank	(Apr 2005)	5.7	4.2	-0.1	4.3
IMF	(Apr 2005)	5.7	4.0	-0.1	4.3
Global-Insight	(Apr 2005)	5.7	3.8	-0.2	3.7
CIER	(Apr 2005)	5.71	4.05	-0.32	4.42
TIER	(Apr 2005)	5.71	4.41	-0.26	-
DGBAS	(Feb 2005)	5.71	4.21	-0.35	-
Academia Sinica	(Dec 2004)	5.99	4.05	-	-

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 coming 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. In addition, China's recent tightening measures to avoid a hard landing are anticipated to affect the Taiwan economy.
- ⇒ **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 banking sector** reached very high levels of non-performing loan ratio, at 8.8% in the first quarter of 2002, with problems most severe among community financial institutions. The establishment of financial restructuring fund (RTC) and the passage of Financial Holding Company Law have helped liquidate and consolidate troubled financial institutions. As a result, domestic banks' non-performing loan ratio lowered to 2.8% in January 2005 from the 7.5% peak, and community financial institutions; to 9.9%.from 16.4%.
- ⇒ Taiwan's financial system is overbanked, with 14 financial holding companies and a large number of banks competing together, and none of them enjoying a market share of more than 10%. This situation needs to be improved as soon as possible.
- ⇒ **The emerging imbalance in manpower development**
 - 1) The unemployment rate rose from 3.0% in 2000 to around 5% in 2002. Although lowering to 4.1% in December 2004, it increased to 4.3% in January 2005. Therefore, it remains a challenge for the government to reach the target of 4.0% in 2005.
 - 2) There is a growing inadequacy in the supply of highly professional and specialized manpower, managers, and basic-skilled workforce.

POLICY INITIATIVES

1. *Key Policy Initiatives*

- ⇒ **The inter-ministerial price monitoring taskforce** met in September 2004 and announced measures to diminish fears of inflation:
 - 1) Switching from "loose" to "neutral" monetary policy, lowering tariffs on energy and consumer imports, and ensuring adequate supply of food.
 - 2) Public utility rate adjustment to be based on consumer affordability, economic situation, and business profitability.
 - 3) The petroleum industries are called upon to avert supply risks for the short run. For the long run, energy-saving technology and low energy-consuming, high value-added productions will be developed and promoted .
- ⇒ **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;
 - ✓ Having at least one financial institution either managed by foreign institutions or listed in overseas markets by the end of 2006.

POLICY INITIATIVES

- ⇒ **Strengthening Corporate governance:** An inter-ministerial "corporate governance reform taskforce" completed a "Policy Agenda and Action Plan to Strengthen Corporate Governance" near the end of 2003. Top priority has been placed on reform in companies listed on the stock and over-the-counter markets, especially financial service firms, to be followed by gradual extension to other businesses.
- ⇒ **Infrastructural development** A spending around US\$15 billion by the government plus US\$6 billion by private investment for the next five years has been launched to step up development in transportation, high-technology, higher education, cultural creativity, harbors, water resources and sewage management.
- ⇒ **Measures to increase employment:** With the economy growing robustly in 2004 and an increase in public spending to create about 40,000 jobs in public services, unemployment had lowered to 4.1% in November 2004. For the long run, the government is promoting services with high potentials in production value, job creation, value-added, international competitiveness, and raising the quality of life. Among the list of such service industries are financial services, wholesale, retail, logistics/distribution/transportation, medical care, manpower training, tourism, cultural and creative, design, information, property management, R&D, environmental protection, and engineering consultancy.

POLICY INITIATIVES

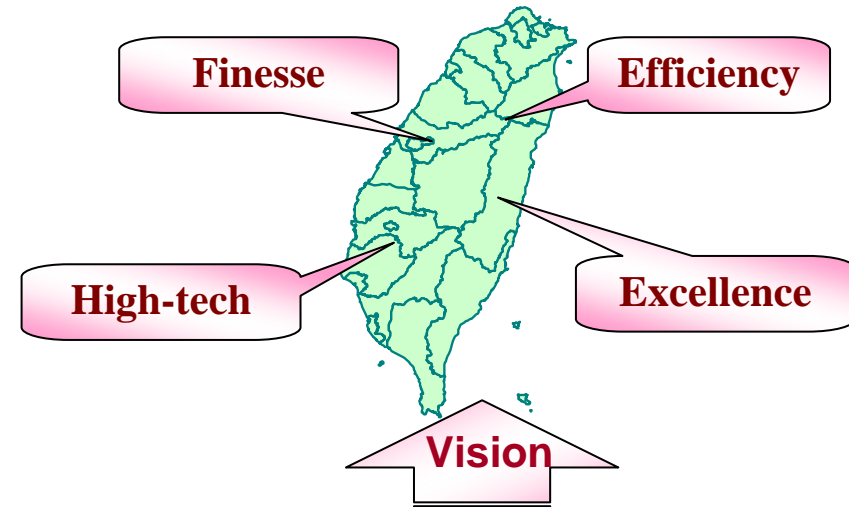
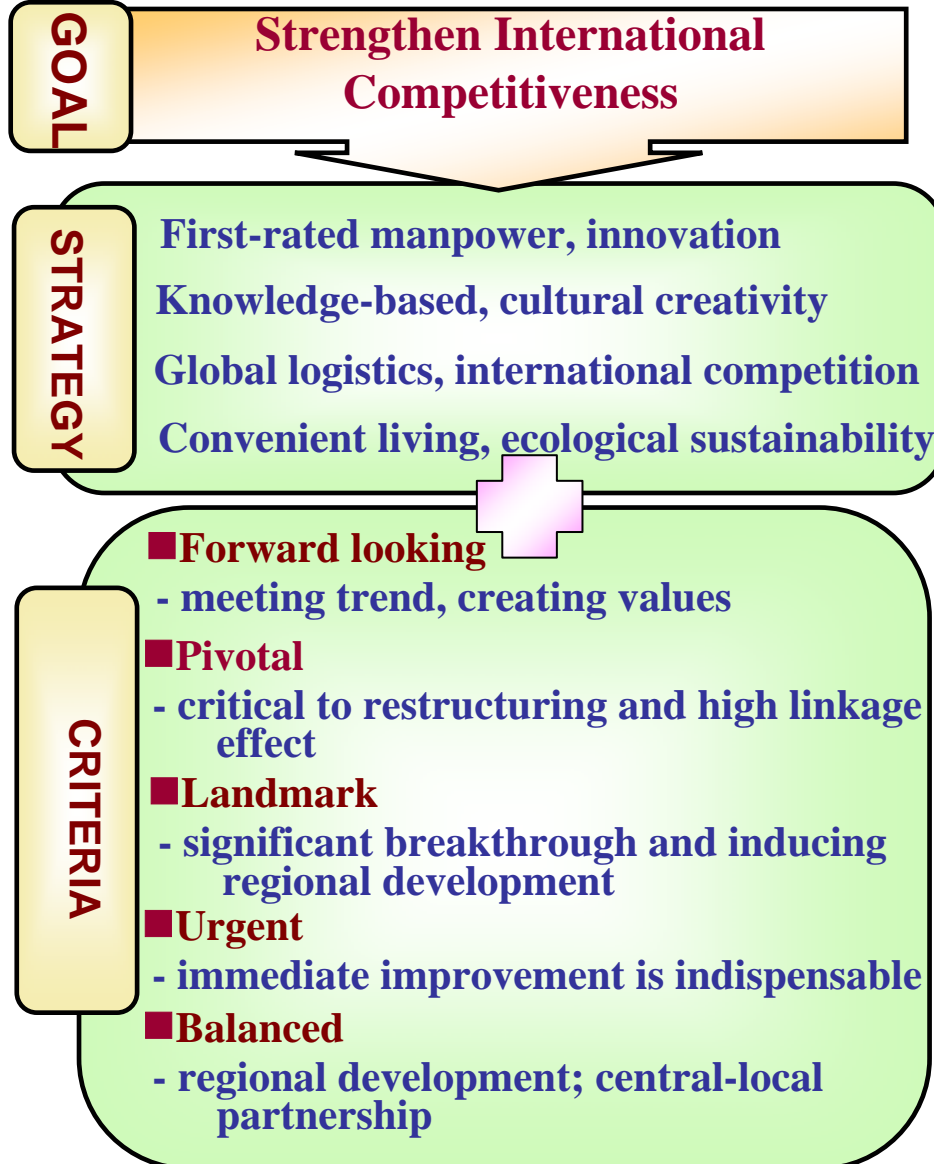
3. *The New Medium-term National Development Plan (2005-2008)*

- ⇒ 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 are:
 - 1) To promote infrastructure and competitiveness, facilitate globalization, and improve fiscal and financial health and economic institutions.
 - 2) To pursue top science and technology, upgrade manpower quality, and enrich cultural content.
 - 3) To conduct physical land planning, strengthen environmental protection and ecological preservation.
 - 4) To strengthen social safety net, improve health services, and build social trust.
 - 5) To improve government efficiency, promote judicial reform, strengthen national security, and open new opportunities for cross-strait relations.

National Development Plan--Macroeconomic Targets

2005	Targets	2005-2008	2005-2015
> 4.5%	Growth of potential GDP Economic growth	4.9%	4.6%
US\$15,000	Per capita GDP	US\$18,000 (2008)	US\$27,000 (2015)
1.6%	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



1 Top-rated universities and research centers

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

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

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

Expected Economic Benefits

Intangible Benefits

Increase the capital value of human resource

Raise the commodity value of the environment

Create cultural values

Enrich national living



Measurable Benefits

Promote economic growth

GDP growth up by 1.0-1.4 percentage points a year

Generate private demand

Private demand up by 0.6-0.8 percentage point a year

Increase job opportunities

Create 64,000 jobs a year

Ease deflationary pressure

CPI increase up by 0.2 percentage point

Expand tax collection

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

Services Industry Development

Strategies

→ Deregulation

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

→ Push for modernization of services

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

→ Adopt a negative-list approach

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

→ Improve the legal and regulatory system

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

Services Targeted for Development

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

Development of Financial Services

Strategies

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

Top Priorities

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

Changing Economic Structure

