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TO RUEHC/SECSTATE WASHDC 3626
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RUEHBK/AMEMBASSY BANGKOK 3513
RUEHBJ/AMEMBASSY BEIJING 6157
RUEHUL/AMEMBASSY SEOUL 8365
RUEHGP/AMEMBASSY SINGAPORE 6734
RUEHKO/AMEMBASSY TOKYO 8344
RUEHML/AMEMBASSY MANILA 9883
RUEHJA/AMEMBASSY JAKARTA 3970
RUEHKL/AMEMBASSY KUALA LUMPUR 3620
RUEHHI/AMEMBASSY HANOI 3184
RUEHBY/AMEMBASSY CANBERRA 4401
RUEHWL/AMEMBASSY WELLINGTON 1667
RUEHHK/AMCONSUL HONG KONG 7388
RUEHGH/AMCONSUL SHANGHAI 0674
RUEHGZ/AMCONSUL GUANGZHOU 9856

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STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH and Stratford
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Taipei Economic Brief for December 2006

¶1. This cable summarizes selected December 2006 economic events in Taiwan:

- Export Growth Slows in Q4;
- Problem Bank Taken over;
- 10% Growth in Manufacturing Sales in Q3;
- Exports of LCD Monitors Surges;
- Taiwan Semiconductor Industry Continues to Grow;
- Semiconductor China Investment Projects Approved;
- Mini-Links Internationalized;
- High-Speed Rail Begins Service January 5;
- Foreigners in Taiwan.

Export Growth Slows in Q4

¶2. In the first 11 months of 2006, Taiwan's exports grew 13% y-o-y to US\$204.4 billion, while imports increased 10% to US\$186.0 billion. This contributed to a 51% rise in Taiwan's trade surplus to US\$18.4 billion. However, Taiwan's y-o-y export growth in October-November slowed dramatically from nearly 20% in Q3 to 7% while import growth also declined from 15% to 7%. Taiwan's Statistical Bureau (SB) projects that the slowdown in trade growth will lead to a decline in real GDP growth from 4.7% in H1 and 5% in Q3 to barely above 3% in Q4 (exports account for over 60% of Taiwan's GDP.) The engine of economic growth started shifting to expanding domestic demand in Q4. Imports of capital goods showed y-o-y growth of 8% in Q3 and 6% in October-November. The monthly average of consumer goods imports increased from US\$1.27 billion in Q1 and Q2 to US\$1.30 billion in Q3 and US\$1.32 billion in October-November. The SB anticipates that private consumption growth will accelerate from 1.5% in 2006 to 3.0% in 2007 and private investment growth will increase from 0.15% in 2006 to 1.9% in 2007.

Problem Bank Taken over

13. On December 15, the Financial Supervisory Commission (FSC) ordered the Central Deposit Insurance Corporation (CDIC) to take over Taiwan Business Bank (TBB) and provide full protection for TBB depositors. TBB reported a pre-tax loss of NT\$31.8 billion (US\$978 million) in the first 11 months of 2006. TBB's net worth as of November 2006 was negative NT\$1,089 million (-US\$33.5 million at exchange rate of NT\$32.5 per US\$). Its capital adequacy ratio was negative 3.7%, while its non-performing loan (NPL) ratio was 23%. (TBB is one of the eight banking institutions put under surveillance for possible insolvency in 2005.)

10% Growth in Manufacturing Sales in Q3

14. Taiwan's manufacturing sector sales in Q3 2006 grew 10% over the same period of 2005 to NT\$2.79 trillion (US\$86 billion). Domestic sales, accounting for 51% of total manufacturing sales, increased 6% to NT\$1.42 trillion (US\$44 billion), while export sales climbed 14% to NT\$1.38 trillion (US\$42 billion). Sales of basic metals grew 37%, followed by 24% for petroleum and coal, and another 24% for electrical machinery and equipment. Sales of electronic components in Q3 grew 12% to NT\$707.6 billion (US\$22 billion). Manufacturing sales in the first nine months of 2006 totaled NT\$8.03 billion (US\$247 billion), up 9.4% y-o-y.

Exports of LCD Monitors Surge

15. After lackluster growth in the first two quarters of 2006, Taiwan's LCD monitor shipments soared 20% from Q2 to 27.5 million units in Q3. Growth was driven by orders from some Korean vendors outsourcing their LCD monitor manufacturing. The growth rate

TAIPEI 00000030 002 OF 003

exceeded 50% for 19-inch and widescreen segments.

Taiwan Semiconductor Industry Continues to Grow

16. The Taiwan Semiconductor Industry Association (TSIA) estimates that semiconductor production grew 23% in 2006 to NT\$1.37 trillion (US\$42 billion) in sales. IC testing output increased 38.5% to NT\$93.5 billion (US\$2.9 billion), IC manufacturing grew 28%, OEM chip production grew 17.6%, IC packaging 22.8%, and IC design 10%.

Semiconductor China Investment Projects Approved

17. In mid-December, the Ministry of Economic Affairs (MOEA) approved three high-tech China investment projects with a combined total investment of US\$775 million. In exchange for MOEA's approval of the investments in China, the three companies promised to invest NT\$1.05 trillion (US\$324 billion) in Taiwan in more advanced technologies. These projects will create 33,500 jobs in Taiwan.

Mini-Links Internationalized

18. TransAsia Airways flew the first charter flight from Kinmen to Singapore on December 11, 2006. Taiwan-controlled Kinmen Island (Quemoy) has had direct ferry services to Xiamen since 2001. However, the links are still restricted to people with family ties to Kinmen. The first Kinmen-Singapore flight carried 189 Kinmen (Taiwan) passengers, including County Magistrate Li Chu-feng, to Singapore. On the December 12 return flight, 187 Singaporean passengers (all of whom had family ties to Kinmen) flew to Kinmen. After visiting Kinmen, most of the visitors traveled via ferry links to Xiamen for a three-day tour. The visitors returned to Singapore via the Kinmen-Singapore charter on December 17. Previous use of direct cross-Strait links has generally been limited to Taiwan and PRC passport holders.

High-Speed Rail Begins Service January 5

¶9. Taiwan's Ministry of Transportation and Communications (MOTC) on December 24, 2006, authorized the Taiwan High-Speed Rail Corporation (THSRC) to begin commercial operation of Taiwan's first bullet train. THSRC announced the following day that it would begin service on January 5, 2007 for a 10-day period of trial operations. During the trial period, ticket prices will be discounted by 50 percent. On December 27, MOTC approved THSRC's proposed fare schedule for regular operations. Tickets from Banciao in suburban Taipei to Kaohsiung's Zuoying Station will cost NT\$1,490 (about US\$46). THSRC plans to operate 19 trains in each direction per day.

Foreigners in Taiwan

¶10. Taiwan authorities recently relaxed restrictions on foreigners' employment and locally issued credit cards. The Council of Labor Affairs (CLA) dropped the education requirement for foreign executives hired by approved investment projects, or hired as sports coaches, athletes, and religious, art, and performance workers. Foreign professionals may now submit applications to extend employment four months prior to expiration of the original employment, longer than the 60 days allowed in the past. The Central Bank of China (CBC) dropped requirements that banks not issue credit cards to foreigners unless their residence permit was valid for over one year, and that credit cards issued in Taiwan to

TAIPEI 00000030 003 OF 003

foreigners not be valid beyond the expiration date of residence permits.

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