

TAIPEI, CHINA

The economy of Taipei, China has largely recovered from a severe earthquake that occurred in September 1999. This is mainly due to an upturn in domestic demand and sustained export growth. As a result of these two factors, economic performance in the first half of 2000 was stronger than expected. The long-term growth prospects remain bright.

Economic Indicator (percent)	1997	1998	1999	2000	2001
GDP growth	6.7	4.6	5.4	6.8	6.3
Inflation rate	0.9	1.7	0.2	1.4	2.2
Current account/GDP	2.4	1.3	2.0	1.3	0.8

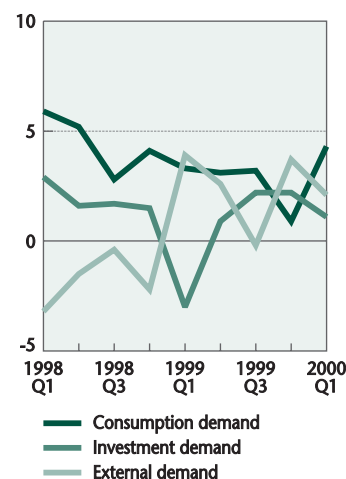
Economic Assessment. After growing by 5.4 percent in 1999, Taipei, China's economy achieved a growth rate of 7.9 percent year-on-year in the first quarter of 2000, and 5.4 percent in the second quarter. Economic growth was stronger than expected mainly because of the recovery in domestic demand and sustained export growth. Private consumption expenditure increased by 8.6 percent in the first quarter of the year and by 7.2 percent in the second quarter. Gross fixed investment grew by 8.2 percent year-on-year in the first quarter of the year largely because of capacity expansion in infrastructure and in the telecommunications industry. However, despite strong domestic demand, inflation remained subdued with consumer prices rising by 0.8 percent in the first quarter of 2000, and by 1.4 percent in the second quarter.

Government revenues were equivalent to 19.5 percent of GDP, and government expenditures 25.5 percent of GDP, in the first quarter of 2000. With the rapid growth of the economy, more revenues will be generated. Given an estimated budget deficit of about 6.0 percent in the first quarter of 2000, the deficit for the whole year is likely to increase substantially from its low level of 1.3 percent of GDP in 1999. Fiscal balances will remain under pressure because of large public expenditures required for rebuilding the infrastructure destroyed in the September 1999 earthquake and the ambitious welfare plans announced by the new Government. However, the Government does not intend to impose higher taxes to improve the fiscal balance, but will adopt measures to make revenue collection more efficient.

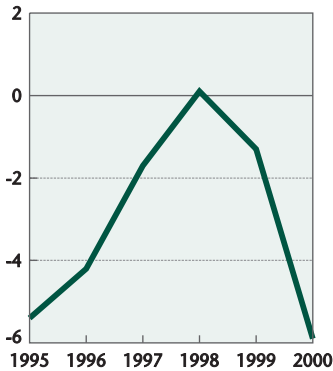
Taipei, China's exports and imports increased at double-digit rates for the first six months of 2000. Although exports grew by 18.3 percent and imports rose by 25.8 percent in the first quarter of 2000, the current account still showed a small surplus of \$2.5 billion for this period. The trade and current account balances declined in the first half of 2000 compared with the same period of 1999. By the end of April 2000, foreign exchange reserves were 6.5 percent higher than at the end of 1999, reflecting inflows of foreign capital.

Structural Issues. The new administration is likely to carry on the deregulation policy initiated by the previous government. The state-owned telephone monopoly, Chunghwa Telecom, is targeted for privatization

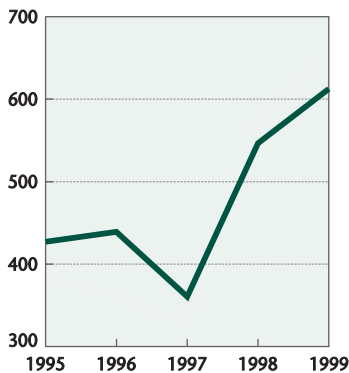
Decomposition of GDP Growth by Quarter (percent)



Fiscal Balance/GDP
(percent)



Ratio of Reserves to Short-Term
External Debt (percent)



before the end of 2001. In July, the Government awarded three licenses to private fixed-line telephone companies to provide a range of national and international voice, data, and broadband services. Such opening-up of the telecommunications sector to private operators in 2001 will reduce the cost of telephone services, and boost Internet and e-commerce use in Taipei,China.

The impending entry of the PRC into WTO will greatly improve Taipei,China's chances of admission. The new Government is committed to accelerating implementation of wide-ranging market-opening measures to which the previous Government agreed in order to secure membership of WTO.

Forecast. Given strong growth in domestic demand and industrial production, in 2000 and 2001 respectively, GDP is expected to increase by 6.8 percent and by 6.3 percent; private consumption by 6.6 percent and 6.4 percent; and gross fixed investment will pick up even more strongly by 11.5 percent and 10 percent. The construction of the long-delayed high-speed railway linking the cities of Taipei and Kaohsiung will be the major contributing factor. Private investment is also likely to increase as electronics companies upgrade their facilities to supply products with higher technology content. This will result in slightly higher average annual inflation rates of 1.4 percent in 2000 and 2.2 percent in 2001.

Imports are forecast to grow by 9.5 percent in 2000 and by 8.6 percent in 2001, and exports by 11.1 percent and by 8.4 percent in those years. Although the current account will remain in surplus, it is forecast to fall from \$5.8 billion (2.0 percent of GDP) in 1999, to \$4.4 billion (1.3 percent of GDP) in 2000, and to \$3.1 billion (0.8 percent of GDP) in 2001.

Overall economic growth will also depend on the economic performance of the PRC and US, the cross-straits relationship, the progress of major infrastructure construction in Taipei,China, and the political stability of the new Government.