

President Ma Ying-jeou (馬英九) has been repeatedly bragging that Taiwan is pretty much clear of its economic woes. However, apart from not being able to end its multitude of economic problems this year, there is also a risk that things could take a turn for the worse. Taiwan's GDP may grow by 3 percent or 4 percent this year because it is compared to a lower base period — last year — but if the many longstanding problems are not completely solved, simply improving economic indicators will not improve living standards.

In his New Year's Day address, Ma mentioned that Taiwan is facing four big challenges — increased global industrial competition, more rapid formation of regional free-trade areas, a clear imbalance between training and industry demands, as well as pension system problems caused by declining birth rates and an aging population.

However, Ma only offered empty slogans and failed to put forward any concrete solutions to the problems. He has neither proposed any forward-looking policies nor showed the courage and resolve to take responsibility for the nation's ills.

As Taiwan's challenges are closely related, we should focus on two main issues. The first is government restructuring.

The more the government is restructured, the more bloated it becomes. The restructuring has not only failed to meet the goals of downsizing government agencies and the number of organizations and employees, but the increase in employee pay has become a heavy burden on government finances.

The government has to spend vast sums on personnel expenses and other legally required expenditures. As economic growth has stagnated, the government has been unable to increase its revenue and instead has raised its debt to make up for a lack of funds. By doing so, the government has ended up with a structural deficit. Combine these factors with the extremely lucrative pension system for retired military personnel, civil servants and public-school teachers that has resulted in an unequal distribution of resources and increased hidden debt, and it is obvious that the government is in deep financial trouble.

Taiwan must transform or crumble

Written by Liberty Times Editorial
Thursday, 10 January 2013 08:56

If something is not done about these problems soon, the government could go bankrupt and we could see a repeat of what happened in Greece here in Taiwan.

Taiwan is a small nation, but it has one of the highest numbers of government ministries in the world. Originally there were 37 ministries, compared with the US and Japan, which have just 11 apiece and China — with a population 56 times larger than Taiwan — with just 27. The number of government ministries has now been reduced to 29, but this is still high.

In addition, a look at the total number of civil servants as a proportion of the overall population reveals that Taiwan's 3.5 percent is higher than Japan's 3.18 percent, Singapore's 2.9 percent and South Korea's 2.12 percent. A look at the central government's general budget for this year shows that personnel expenses as a proportion of the total budget accounted for 22 percent, much higher than the EU's 15 percent.

Furthermore, government restructuring has resulted in a strange phenomenon: The central government has been downsized while the governments of the five special municipalities have greatly increased.

By creating six special municipalities, including Taipei, the central government ignored standards that administrative divisions should be based on, such as population, culture, geography and industrial factors. By not focusing on these things, it has created a strange and unique system unlike any other in the world.

In the future, an additional 10,230 civil servants will serve in the special municipalities, and following the reform and upgrading of their respective agencies, their pay will increase. These factors will contribute to an increase in the government's financial burden.

Meanwhile, 46 percent of local government funds are spent on personnel expenses, meaning that almost half of local government expenditures go toward personnel. This is compounded by the unreasonable pension system in which retired government employees receive an 18 percent interest rate on part of their pension deposits, while employees of state-run financial institutions enjoy a 13 percent interest rate on their bank deposits. This results in excessively high income-replacement ratios for these groups, with some retirees receiving more in retirement than the salaries they earned when working.

Taiwan must transform or crumble

Written by Liberty Times Editorial
Thursday, 10 January 2013 08:56

The government is without doubt in deep trouble when it comes to personnel. Its system is ineffective and lacks sources for additional funding. Infrastructure does not receive the attention it should, which will result in the stagnation of national development.

The second-biggest challenge facing the nation is its economic woes and the fact that these woes have basically been caused by a lack of successful industry transformation coupled with excessive economic reliance on China. This has had many negative effects.

Many observers have suggested that for Taiwan's economy to grow, its industries must move beyond original equipment manufacturing and focus on research and development, innovation and branding and the nation must shift from its economic dependence on China. If Taiwan's industries are unable to transform and we remain satisfied with a business environment of low pay, low cost and low technology, profits will remain low.

In addition, once the overall business environment changes, Taiwanese businesspeople must adapt to these changes straightaway. For example, if pay levels in China increase, all the Taiwanese businesses there would be able to do is move their operations to cheaper areas in Southeast Asia. However, drifting around in search of cheaper conditions is no way for Taiwanese businesses to maintain sustainable business operations.

Taiwanese foreign investment is almost completely concentrated in China. Such a concentration is risky even for nations that have normal diplomatic relations with China. It is dangerous because Beijing has its own plan for Taiwan. Being overly reliant on China in terms of investment and trade will result in what Chinese academic Hu Angang (胡安钢) talked about when he likened Taiwan's reliance on China to that of a diabetic's reliance on insulin.

What is worse is the way in which Taiwanese businesspeople view China as their main production base because, regardless of how big their scale of production is, they will have little beneficial effect on employment and pay levels in Taiwan.

Taiwan's GDP growth over the past decade has been close to 60 percent, but real wages have returned to the levels of 14 years ago and unemployment remains high. Excessive reliance on

Taiwan must transform or crumble

Written by Liberty Times Editorial
Thursday, 10 January 2013 08:56

China is an issue that needs immediate action.

Taiwan faces a multitude of troubles and Ma and his team need to come up with effective solutions to the abovementioned challenges. It is the only way to improve economic development, industrial transformation and completely revamp the nature of our economy and carve out a new future for Taiwan.

Translated by Drew Cameron

Source: [Taipei Times - Editorial 2013/01/10](#)