MA YING-JEOU FACING A FORMIDABLE ECONOMIC CHALLENGE

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Executive Summary

President-elect Ma Ying-jeou will face both immediate and serious challenges after taking office on 20 May; the most formidable one will be to revitalize a sluggish economy.

Taiwan's investment environment has not improved and has been unable to attract private and foreign investment.

Since the Democratic Progressive Party (DPP) came to power in 2000, social welfare expenditure has far exceeded spending on economic development. Government spending has not been sufficiently subjected to detailed assessments on cost-effectiveness.

An uneven income distribution has had an adverse impact on both private consumption and economic growth.

Over the past eight years (2000–2007), tensed cross-Strait relations have further hampered Taiwan's economic growth.

Still, Taiwan's dependence on China's imports and exports is continuously increasing because Taiwanese enterprises have taken advantage of China's abundance of low-cost labor, land and resources, and broad market opportunities to maximize their competitive advantage in the global market.

Therefore, a top priority for President-elect Ma Ying-jeou will be to improve cross-Strait relations and normalize economic relations with the mainland.

Direct trade and transportation links are expected to accelerate investment and promote cross-Strait trade relations that will help Taiwan enterprises in their global deployment strategy.

To take part in regional economic integration, a more open policy is needed, in particular in relation to cross-Strait economic and trade policies.

Taiwan's new government needs to improve cross-Strait relations and take part in regional economic integration, in particular, with East Asian countries. The new government should waste no time in tackling these important issues that are decisive to Taiwan's future development.

Ma has recognized that insufficient domestic demand has resulted in sluggish economic growth; he is likely to take steps to expand domestic demand by increasing public investment to rejuvenate the economy.

Curbing inflation is a more important issue. Though expanding domestic demand increases national income, real income will decline if inflation gets out of control.