

**IS TAIWAN'S DECLINING
PUBLIC INVESTMENT
A CRISIS IN THE MAKING?**

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Executive Summary

1. Taiwan's economic transformation has been a cause for concern in recent years with the latest data indicating a slower expansion of fixed capital formation, a crucial factor for both domestic demand and economic growth.
2. Taiwanese government's fixed capital formation experienced six consecutive years of negative growth rates, hitting a low of -2.92% in 2010, -5.78% in 2011, -10.95% in 2012, -2.97% in 2013, -7.52% in 2014 and -2.74% in 2015.
3. Taiwan's economic conundrum indicates a negative relationship between an increasingly democratic system and economic growth. Following democratisation, Taiwan saw a rapid increase in the size of government, while the problem of government administrative inefficiency remains unresolved.
4. The rigidity of working hours and higher overtime pay under the new amendment could discourage Taiwan's inward FDI (foreign direct investment). The shortages of water, power, manpower, land and talent are issues to be resolved due to an inefficient government administration, which in turn may adversely impact inward FDI.
5. There is a need for Taiwan's democratic process to be further transformed and upgraded in order to improve efficiency. Meanwhile, owing to a lack of investment opportunities, many business owners have invested their overseas earnings in Taiwan's real estate market, pushing up housing prices in metropolitan regions.
6. As a result of the democratic transition, both national saving and domestic investment rates exhibited different long-term trends, with domestic investment deteriorating after each presidency.
7. A crucial contributor is the shift in government spending in favour of welfare spending and away from public investment to comply with voters' preference for low taxes and high government spending during elections.

8. Household savings have exhibited a declining trend and the drop in household savings implies lower sustainability and less capital accumulation for economic growth. Taiwan's average household savings totalled NT\$216,304 in 2016 and household savings rate increased by 0.51% from that for 2015 to reach 21.78%.
9. To boost public investment, balance regional disparities and stimulate economic growth, the Executive Yuan proposed a Forward-looking Infrastructure Development Programme in March 2017.
10. However, elections may dampen the effectiveness of the Forward-looking Programme. Since public investments in infrastructure are debt-financed, the accumulation of government debt could lead to slower economic growth, instability in financial markets and an increasingly heavy tax burden for future generations.