

DOMESTIC CHALLENGES AND OPPORTUNITIES FACING TAIWAN'S NEXT PRESIDENT

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“Voting for Change?: The Impact of Taiwan’s Upcoming Elections”

Roundtable at George Washington University

December 9, 2015

FIVE DOMESTIC CHALLENGES

- Legislative Yuan Reform
- Low Tax Base
- Economic Strategy
- Defense Budget
- Environment and Energy Policy

I. LEGISLATIVE YUAN REFORM

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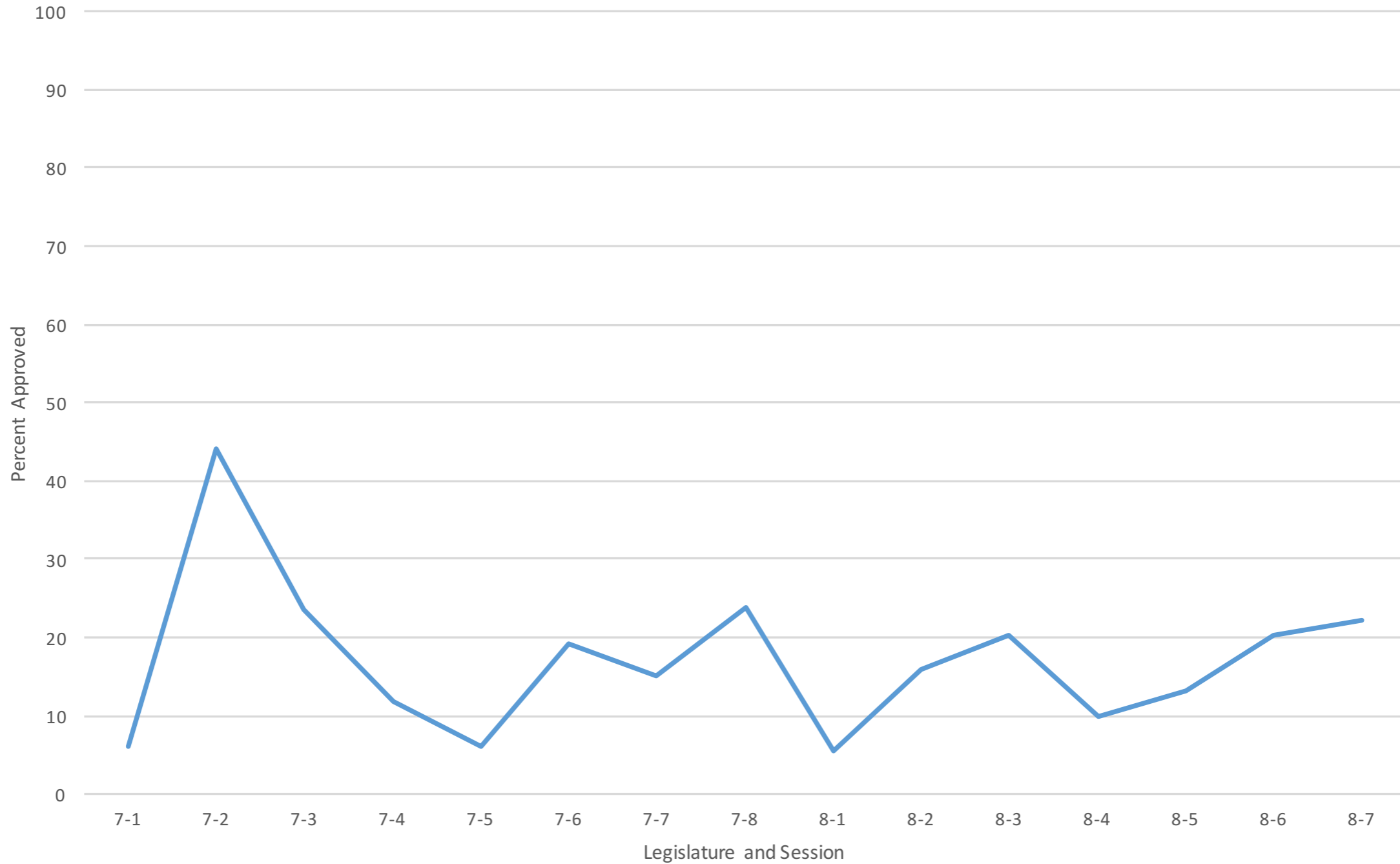
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Passage Rates of High-Priority Govt-Sponsored Legislation,
7th (2008-2012) and 8th (2012-2015) LY



Source: Lang Kao, 2015 Conference on Constitutional Reform, Stanford University:
http://cddrl.fsi.stanford.edu/research/the_taiwan_democracy_project

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The LY is where presidential initiatives go to die



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- Speaker Wang Jin-pyng enforces this system



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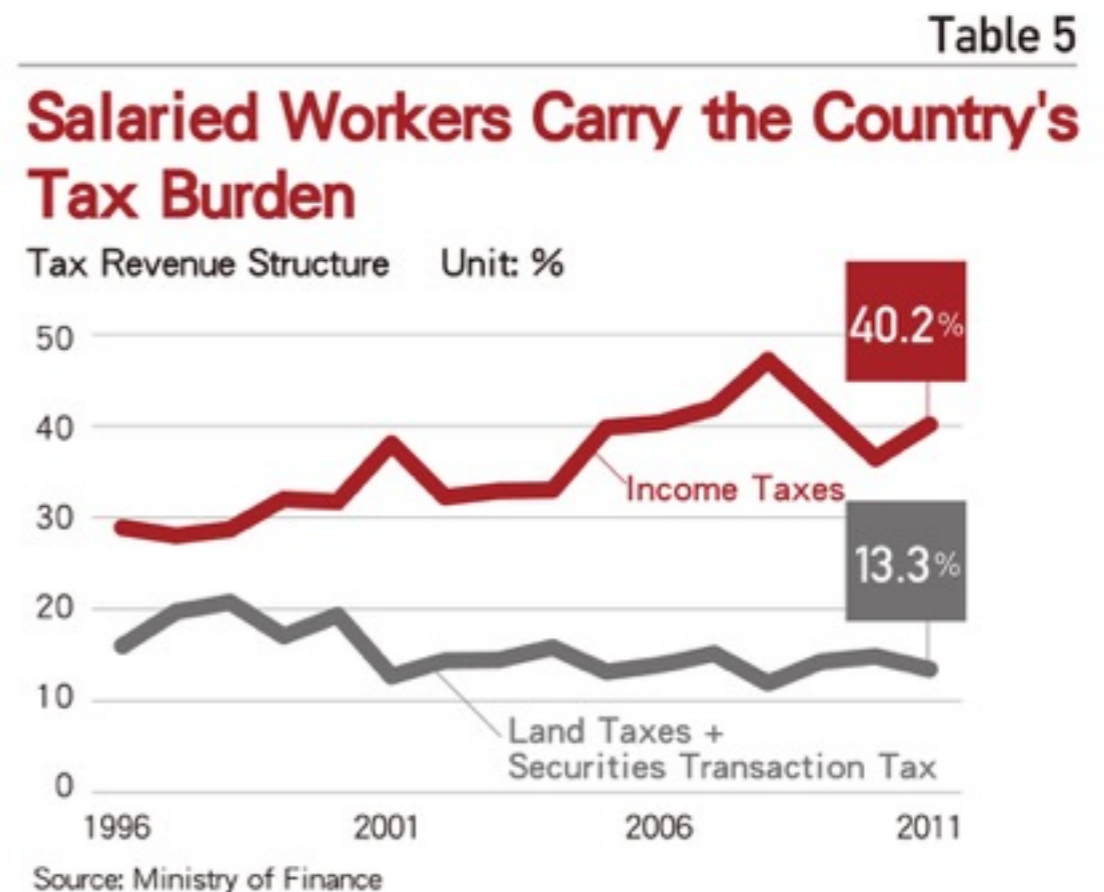
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TAX BURDEN IS UNEVEN

- Salaried income taxed at max of 40%
- No capital gains tax
- Minimal property transactions tax
- Rising inequality; Gini of 34.5 is probably underestimated

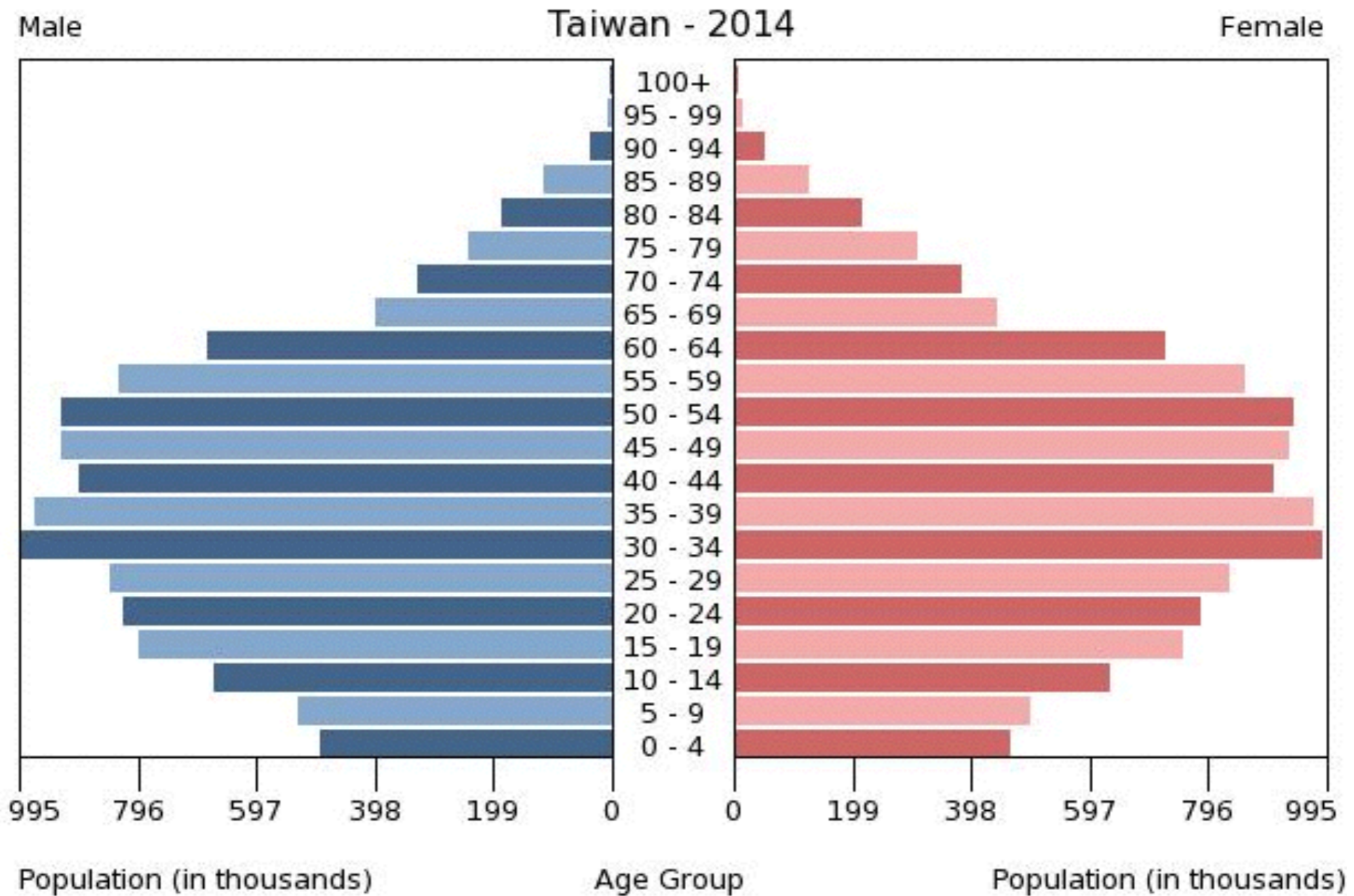


Commonwealth Magazine report

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- **Uncertainty about economic model**

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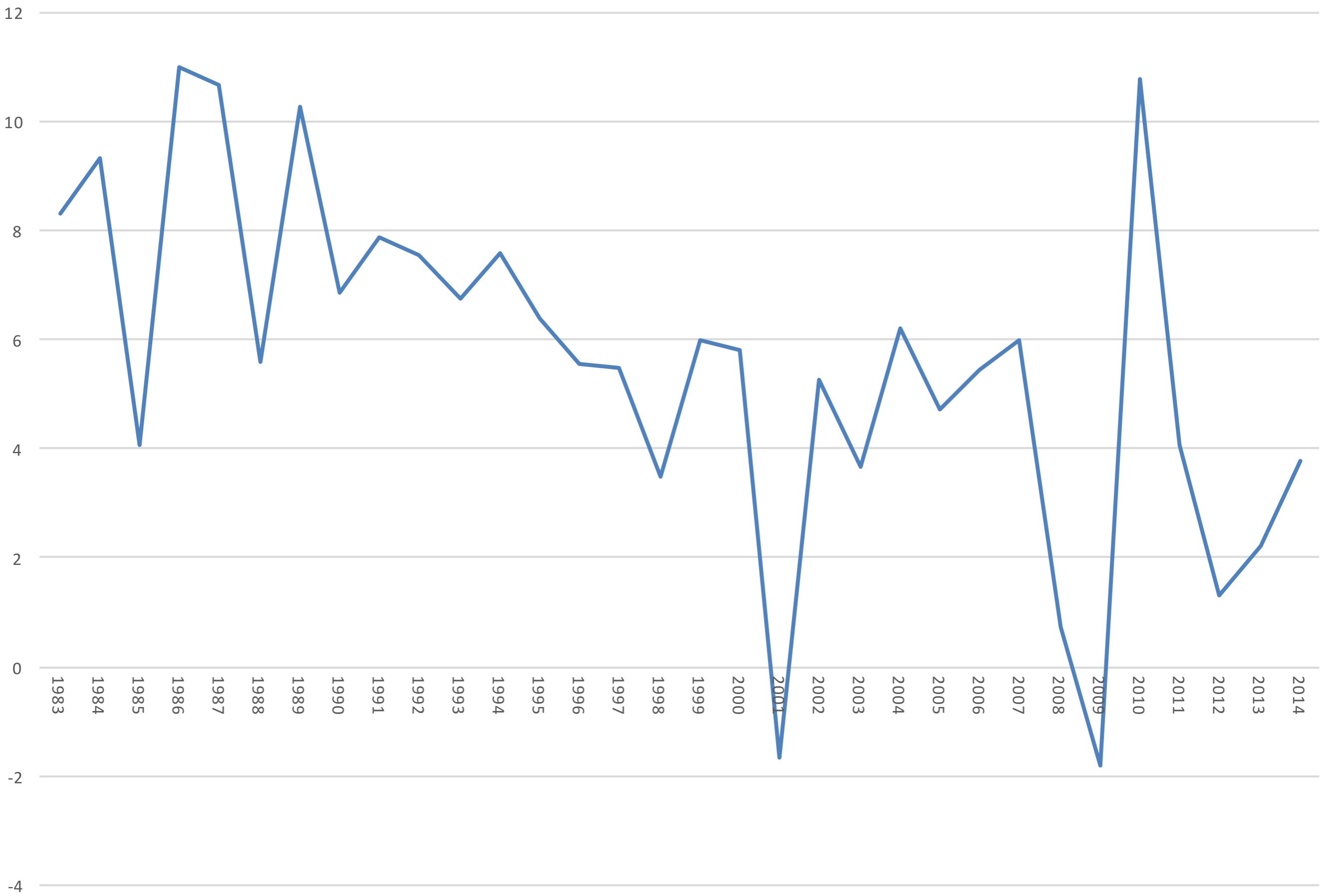


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- Political consequences obviously controversial.
- Economic results below expectations: concentrated benefits.



Annual Change in GDP in Taiwan, 1983-2014



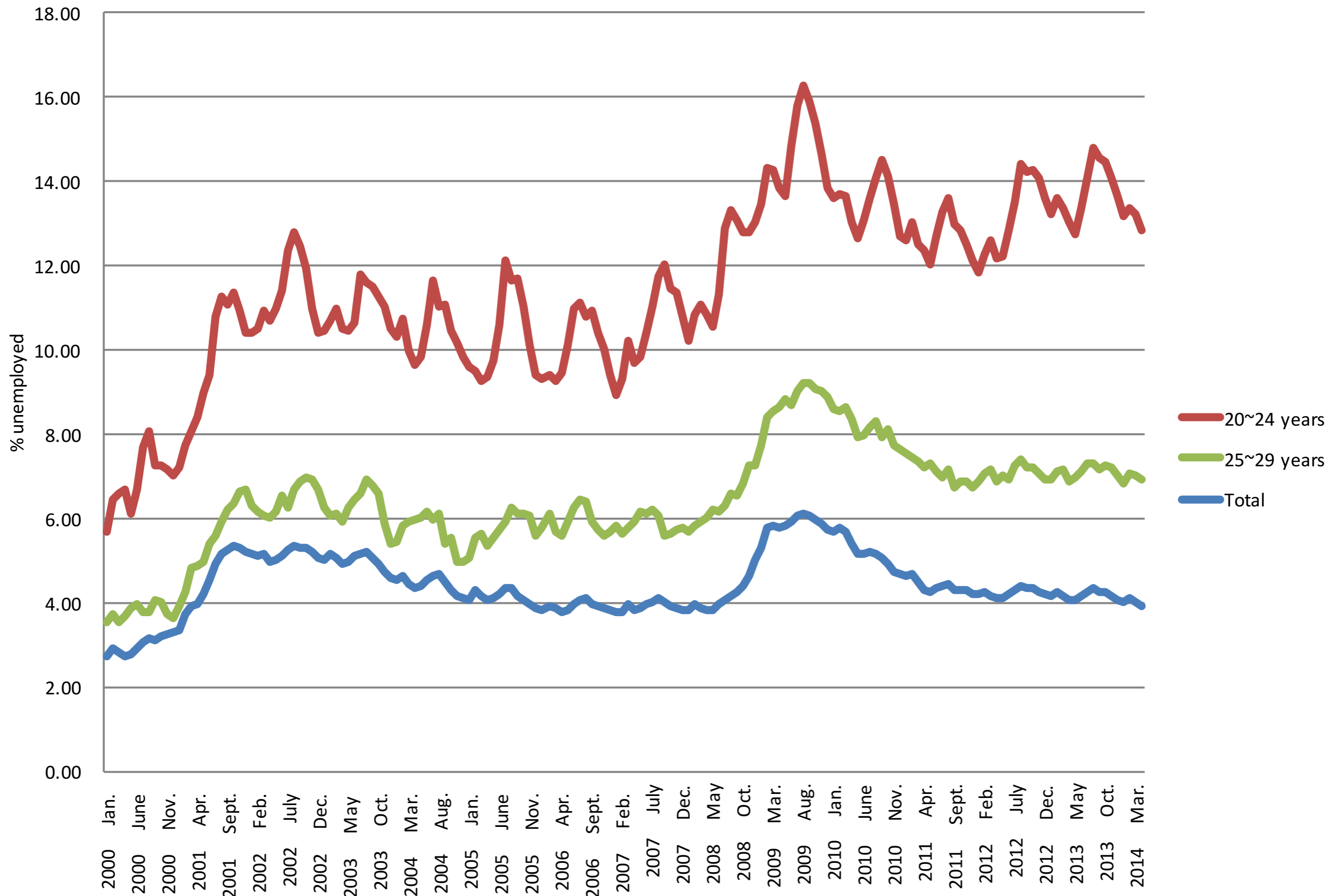
TAIWAN'S ECONOMY AFTER 2010

TAIWAN GDP ANNUAL GROWTH RATE



SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL STATISTICS, REPUBLIC OF CHINA

Taiwanese Unemployment by Age Cohort, 2000-2014



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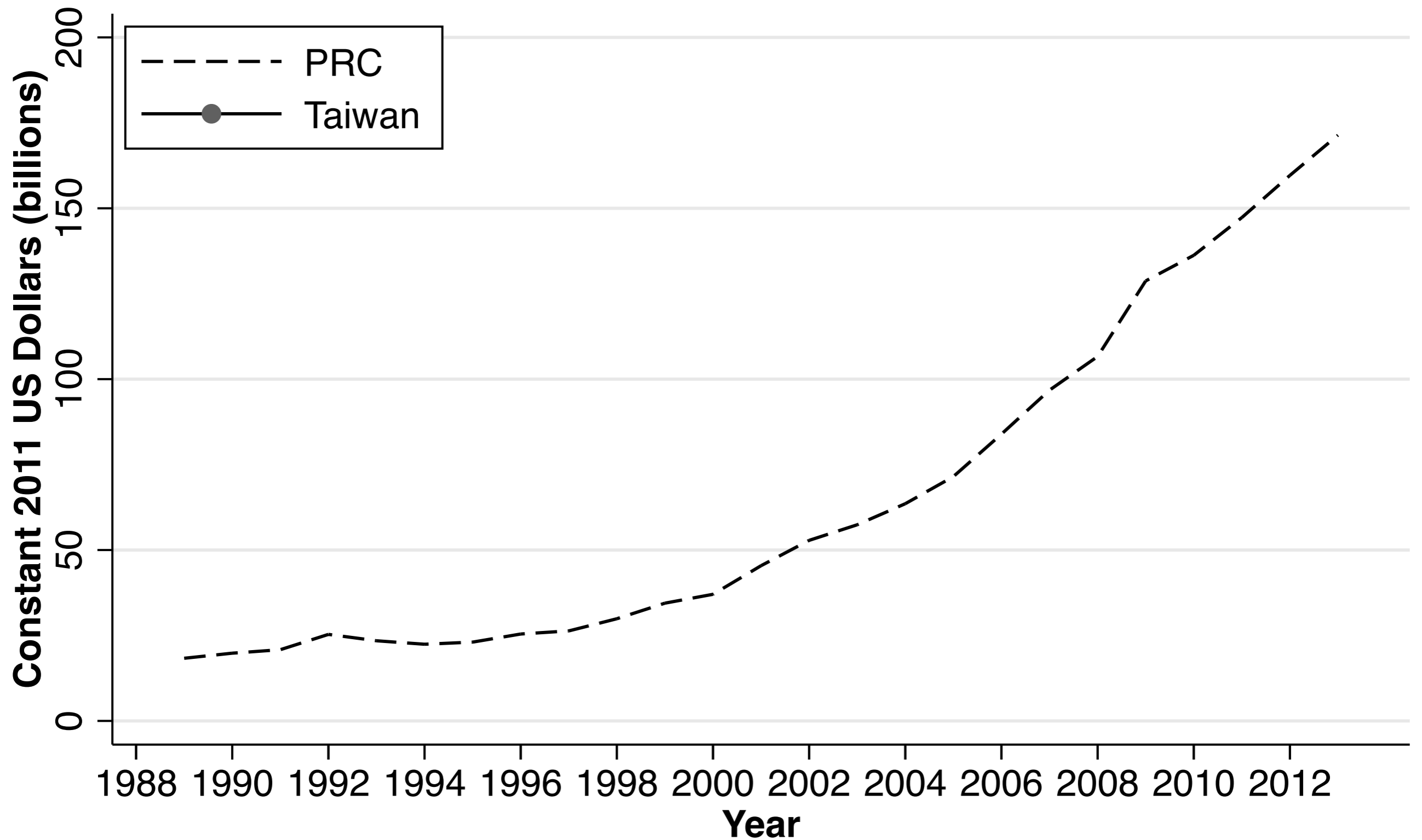
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4. DEFENSE BUDGET AND STRATEGY

Defense Expenditure in East Asia, Constant USD

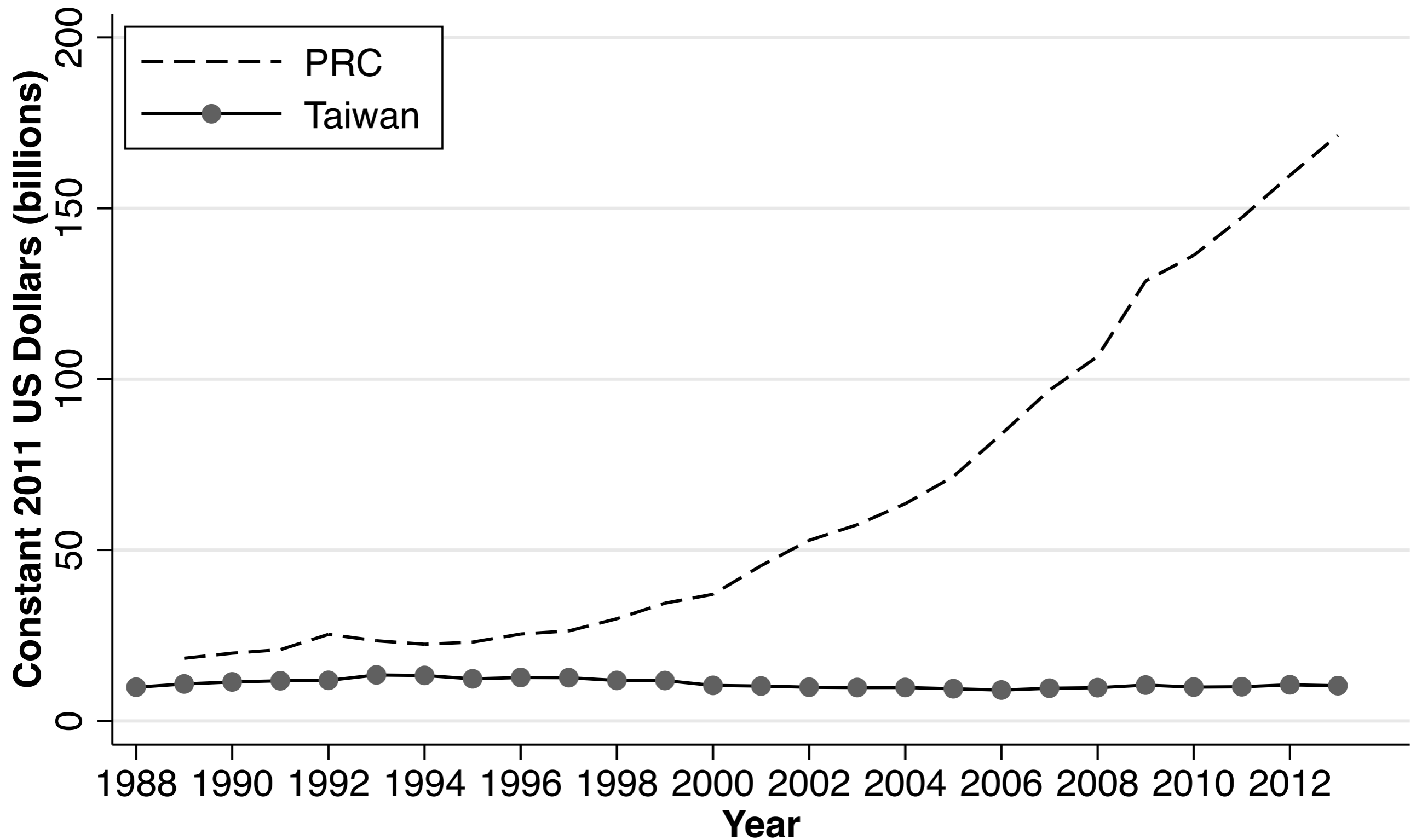
1988-2013



Source: SIPRI Military Expenditure Database (2014)

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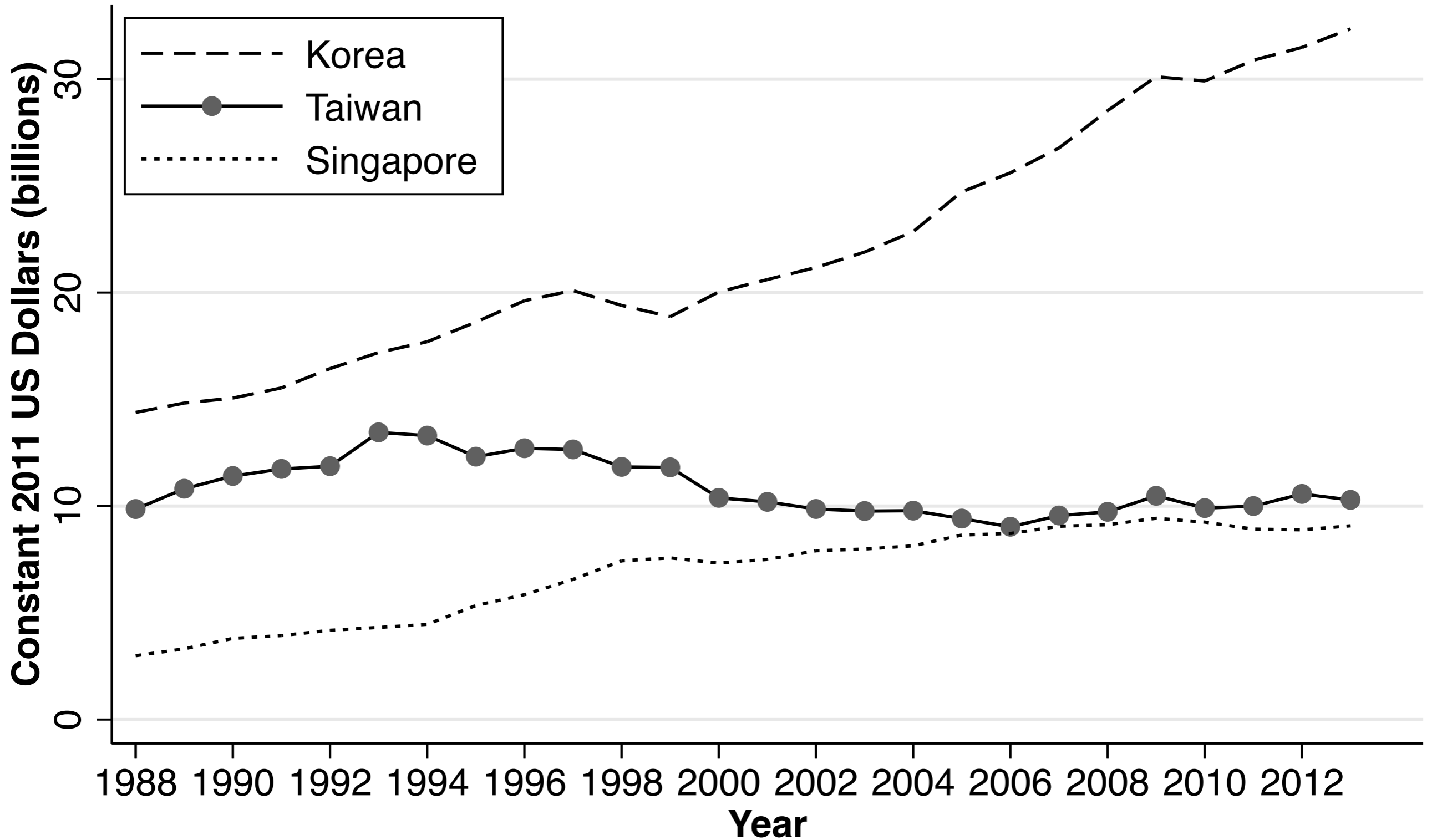
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Source: SIPRI Military Expenditure Database (2014)

Defense Expenditure in East Asia, Constant USD

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DEFENSE STRATEGY: COST IS A CONCERN

- Not clear how new weapons systems will be paid for, especially new jets, submarines.
- Switch to all-volunteer force going badly; repeatedly delayed, personnel costs eating up larger share of budget



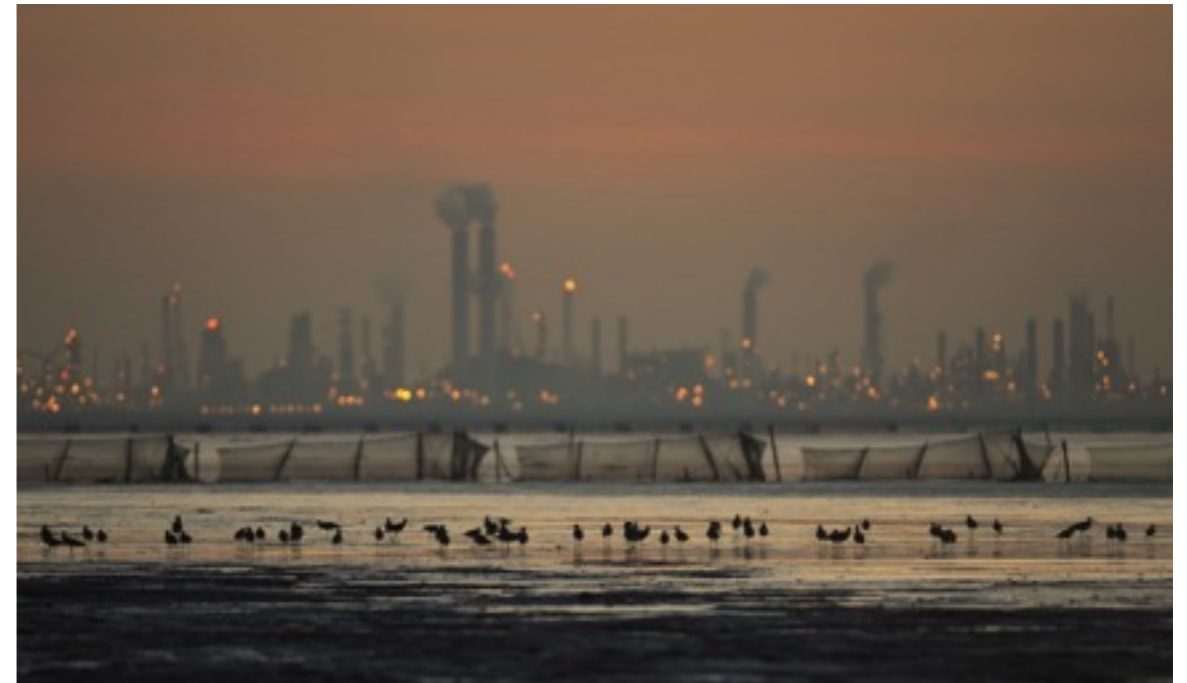
5. ENVIRONMENT AND ENERGY



- Heavily reliant on energy imports; green energy is tiny percentage.
- Nuclear is now unpopular; Fukushima effect; no permanent storage facilities.
- Next govt will have to raise costs of electricity, water.

MANAGING THE POST-DEVELOPMENTAL STATE

- Legacy of state-led heavy industrialization
- Environmental activism raises political costs
- Ma administration policy contradictory: canceled petrochemical plant, nuclear power facility



WHAT TO EXPECT
UNDER A TSAI ING-WEN
PRESIDENCY

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- The DPP wins a majority in the LY
- Tsai Ing-wen can place allies in key LY positions

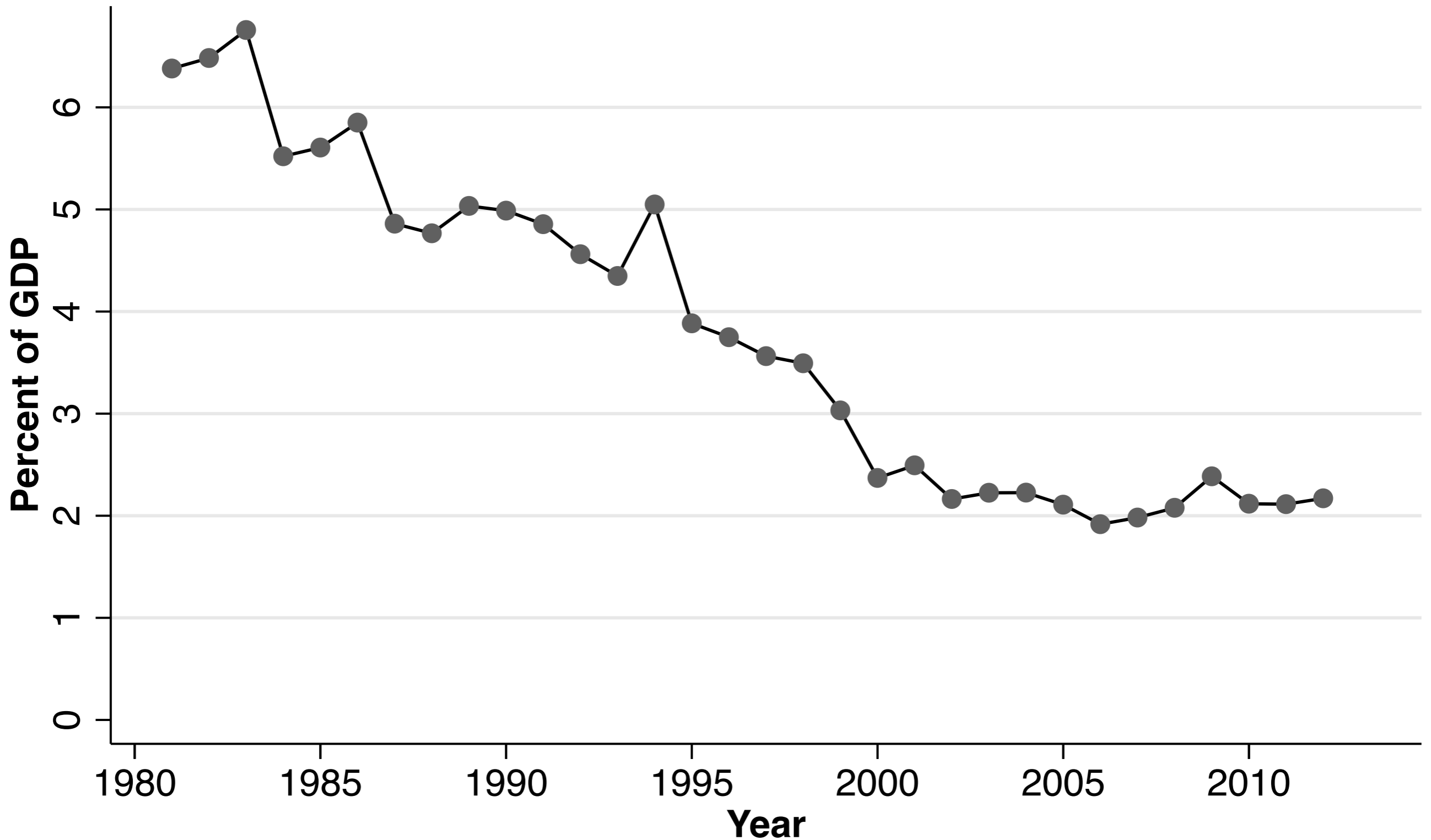
SOME POSITIVE NOTES

- This (probable) DPP government will be different from the last one
- Best prospects for significant domestic policy change come from DPP LY majority
- Public opinion trends: convergence among youngest generation on identity, cross-Strait policy

THANKS!

Total Government Defense Expenditures

Actualized Annual Expenditure, Percent of GDP, 1981-2012



Source: ROC Yearbook of Financial Statistics, various years