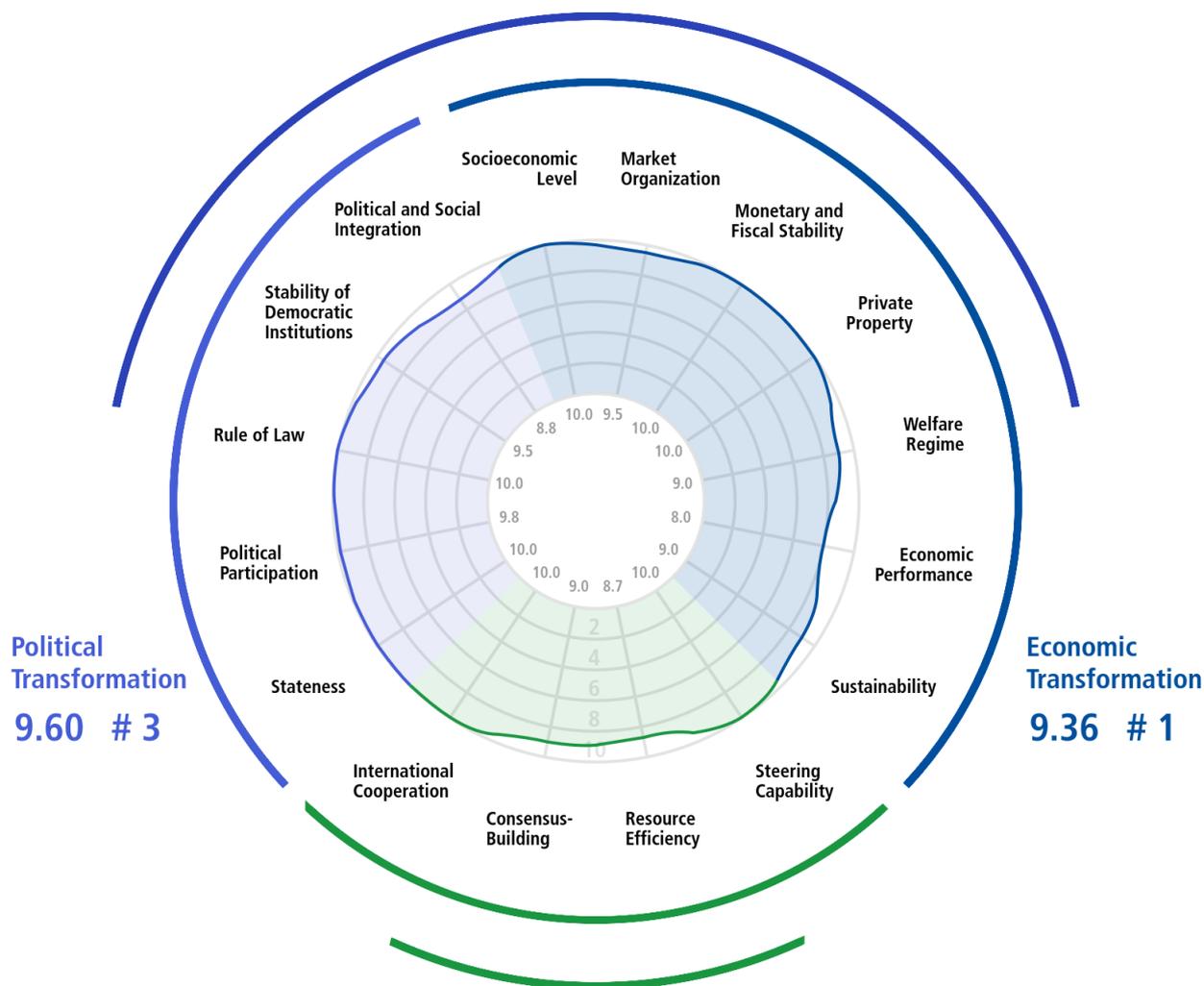


Taiwan

Status Index

9.48 # 1

on 1-10 scale out of 137



Political Transformation
9.60 # 3

Economic Transformation
9.36 # 1

Governance Index

7.64 # 1

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Claudia Härterich

Phone +49 5241 81 81263
claudia.haerterich@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	23.6	HDI	-	GDP p.c., PPP \$	55856
Pop. growth ¹	% p.a.	-0.2	HDI rank of 189	-	Gini Index	-
Life expectancy	years	80.5	UN Education Index	-	Poverty ³	% -
Urban population	%	61.1	Gender inequality ²	-	Aid per capita	\$ -

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Throughout the period under review, Taiwan has remained a high performer in terms of democratic politics and liberal market policies. It continues to enjoy a high degree of stateness, meaningful elections, an absence of undemocratic veto actors, stable democratic institutions and a vibrant civil society, and does extremely well in guaranteeing its citizens political rights and civil liberties.

Politically, the first half of the review period was characterized by the government of President Tsai Ing-wen's Democratic Progressive Party (DPP) pursuing its domestic policy agenda in the run-up to the 2020 presidential and parliamentary elections, and a new low-point in cross-Strait relations. At the beginning of the election year, chances for Tsai's second term in office and a continuation of the DPP's majority in the legislature looked grim, thanks to a series of government scandals and the party's dismal showing in the November 2018 nationwide local and municipal elections. The major opposition party, the Kuomintang (KMT), nominated Han Kuo-yu as presidential candidate, a quasi-populist termed "Taiwan's Donald Trump" who had won the mayorship in the former DPP-stronghold Kaohsiung in the 2018 elections. Despite trailing Han and the KMT in the polls for some time, Tsai and the DPP won the general elections in a landslide, defending the presidency and the party's parliamentary majority with 57.1% of the presidential vote and 61 out of 113 seats in the country's single-chamber legislature, the Legislative Yuan. The KMT won 38 seats. Three smaller parties, which had only been founded within the last four years, won five seats (Taiwan's People Party, TPP), three seats (New Power Party, NPP), and one seat (Taiwan Statebuilding Party, TSP), respectively.

One crucial factor in the DPP's ability to reverse the momentum was the worsening of cross-Strait relations and the further shrinking of Taiwan's international space. In January 2019, China's President Xi Jinping stressed in an open letter the goal of unifying Taiwan under the People's Republic, if necessary, by military force. To underline these threats, the People's Liberation Army ramped up their military presence in the sea lanes and airspace around Taiwan. These maneuvers did not have the effect of cowering Taiwanese voters into abandoning the DPP, but rather gave Tsai

the chance to portray herself as a defender of Taiwanese de facto sovereignty, while reducing support for the KMT and Han Kuo-yu, who had campaigned on a more China-friendly platform. This was further exacerbated by the mid-2019 protests in Hong Kong against the amendment of the “Fugitive Offenders Bill,” which signaled to many Taiwanese the potential future of Taiwanese self-determination, democracy and human rights under China’s “one country, two systems” formula.

Economically, Taiwan remained in the world’s top twenty economies in terms of macrostability, international competitiveness and market-friendly policies, despite the ongoing and worsening cross-Strait relations, and the country’s continuing isolation from the majority of the international organizations that are a prerequisite for statehood. Taiwan’s economy grew robustly by 3.0% in 2019 and is projected to have grown 2.5% in the pandemic year of 2020. GDP per capita has risen over the review period and is projected at \$28,180 in 2020, a considerable increase from \$25,838 in 2018. Inflation levels and volatility have been low during the review period, with the country’s consumer price index (CPI) at 0.56 % in 2019 and a slight deflation of -0.23% in 2020 because of the COVID-19 pandemic. After a slight 1.5% decline in 2019, exports saw a solid 4.9% growth in 2020. Imports remained relatively stable during the review period, rising by 0.3% in both 2019 and 2020. Throughout the review period, Taiwan recorded solid trade surpluses, with \$43.5 billion in 2019 and \$58.8 billion in 2020, and a low unemployment rate of 3.68% in late 2020. As in previous years, public finances were healthy, with solid tax revenues, manageable and decreasing public debts and foreign reserves reaching a new record high of \$529.9 billion in December 2020.

These strong figures are not least a result of the country’s swift, comprehensive and effective response to the COVID-19 pandemic, which dominated most of government policy in 2020 and is widely lauded as a success story. Taiwan was hit early in the pandemic due to its proximity and tight economic and societal relations with Mainland China, with the first local case being reported on January 21, 2020. The government quickly reacted by following a three-pronged strategy that combined strict disease containment (border control and travel bans, quarantine regulations and contact tracing, and extensive use of masks and testing), economic relief (subsidies and tax reductions for struggling businesses, support for underprivileged citizens, and a range of stimulus activities), and supporting international partners in their COVID-19 responses. On February 25, the Legislative Yuan passed the Special Act for Prevention, Relief and Revitalization Measures for COVID-19 (“COVID-19 Special Act”) as the legal foundation for the government’s pandemic response and passed a special budget to finance pandemic relief, which was expanded twice during the following months. These measures have not only ensured that Taiwan’s economy, despite being highly dependent on global trade, has performed much better than most industrialized nations, but have also minimized the domestic social and human costs of the pandemic, despite never having to impose a lockdown or large-scale limitations on civil rights. As of the end of January 2021, Taiwan has counted fewer than 900 confirmed COVID-19 cases, mostly introduced from abroad, and seven COVID-19-related deaths.

History and Characteristics of Transformation

In Taiwan, political transformation has long taken a backseat to economic transformation. The foundations of a sound market economy were laid in the 1950s under the authoritarian leadership of Chiang Kai-shek and the KMT. During that time, the state intervened with a strong hand in economic affairs, regulating and protecting domestic markets. In the four decades of authoritarian rule that followed the Chinese Civil War in 1949, Taiwan moved gradually toward a social market economy and established rudimentary social insurance systems.

Democratic transition began with the illegal founding of the DPP on September 28, 1986 – a move tolerated at the time by the KMT regime – and the lifting of martial law on July 14, 1987. More reforms followed, most importantly the legalization of new political parties in January 1991. In 1991 and 1992 respectively, Taiwan saw the first free elections to its central parliamentary bodies, the National Assembly and the Legislative Yuan, marking the end of the transition process. During the 1990s, democracy matured by successive constitutional reforms that, along with other changes to Taiwan’s political system, paved the way for the first direct presidential election in early 1996. The incumbent president and KMT party leader, Lee Teng-hui, won this election and gained himself the epithet of Taiwan’s “father of democracy.”

Successful democratic consolidation had already been achieved when Chen Shui-bian, an experienced DPP politician and stout advocate of Taiwanese independence, unexpectedly won the March 2000 presidential election and made the KMT an opposition party for the first time since 1949. The following eight years were dogged by severe legislative inefficiency as the partisan conflict between the ruling DPP and the KMT-led opposition, which commanded a majority in parliament, paralyzed the political process. Cross-Strait relations further soured as the new president pursued an agenda of assuring Taiwanese sovereignty against Beijing’s “one China principle” and pushed for a referendum law and a new constitution.

The KMT returned to power with President Ma Ying-jeou and a two-thirds majority in the Legislative Yuan. The new administration immediately embarked on a proactive China policy by restarting cross-Strait negotiations and signing numerous accords with Beijing, which inter alia included a quasi-free trade pact and established direct trade, transport and communication links across the Taiwan Strait. Relations between Taiwan and China became more stable after 2008, which contributed to the incumbent KMT government’s re-election in the January 2012 presidential ballot. However, eight years of an overall accommodating cross-Strait policy has not brought a solution of the sovereignty dispute between Taipei and Beijing any closer. By the time of the 2016 general elections, a large percentage of the populace had grown disillusioned with the KMT government’s promises of greater cross-Strait integration.

Consequently, the elections saw the KMT lose both its parliamentary majority and the presidency to the DPP and its candidate Tsai Ing-wen, marking the third peaceful change of power in Taiwan’s history, and the first time that a woman was elected president. Drawing on her legislative majority,

the president was able to tackle a multitude of reforms, including the introduction of a minimum wage, environmental reforms, increased investments into industrial development and infrastructure, and the consolidation of the nation's ailing pension system for its 450,000 retired public servants and military personnel.

Some of these reforms were overall successful yet highly contentious, and together with a number of government scandals, lead to a drop in the president's approval ratings and the DPP's disastrous showing in the November 2018 nationwide local elections. The single most pressing problem remains Taiwan's stressed relationship with the People's Republic of China, which has reacted to the 2016 electoral victory of the pro-independence leaning DPP by effectively freezing all cross-Strait negotiations and ramping up its economic, diplomatic and military pressure on Taiwan. This has done nothing to convince or coerce Taiwanese in favor of unification with the Mainland. The overwhelming majority continue to support maintaining the current status quo in the Taiwan Strait.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Although Taiwan's status under international law is contested, the Taiwanese state (which is officially named the Republic of China/ROC) enjoys effective power and authority over its territory, including the islands of Taiwan, Penghu, Matsu and Kinmen.

While the long-lasting struggle over Taiwan's national identity has been replaced by a more pragmatic policy-oriented public discourse over the speed, scope and limits of economic and socio-cultural integration with the mainland, the conflict over Taiwan's political future as an independent nation-state or as part of a unified Greater China remains unresolved. The large majority of Taiwanese support the status quo in the Taiwan Strait, which constitutes the best compromise of their existential security interests in the face of China's militant rejection of Taiwan's formal independence and a distinct Taiwanese national identity, their growing identification with their state, and a desire for sovereignty that has grown since the 1990s. The share of citizens identifying with and supporting reunification with China has further declined over the review period, especially in the light of Beijing's heavy-handed policy toward Hong Kong. Taiwan does not deny citizenship based on group identity.

Question
Score

Monopoly on the
use of force

10



1

State identity

10



1

In Taiwan, state legitimacy is fully derived from a secular constitution. Religious dogmas play no role.

No interference of religious dogmas

10



Taiwan's civilian administration is differentiated, professional and provides sound and reliable public services throughout the country. The judicial system, law enforcement and the taxation bureaucracy are well established and functional. Access to water, education and health services is secure and the existing, highly developed communication and transport infrastructure is continually subject to modernization. Services in basic infrastructure have not been significantly disrupted by the COVID-19 pandemic.

Basic administration

10



2 | Political Participation

All relevant political offices are subject to competition in regular, universal and secret multiparty elections, which are usually undisputed and widely covered by the media. There are no restraints on the electoral process, which is fair and transparent, and professionally run by the nonpartisan Central Election Commission. Vote-buying (attracting voters with small gifts, free lunchboxes and small amounts of money given as “tokens of appreciation” that has come to be expected by most voters in sub-urban and rural districts) in local elections is still an issue and has so far weathered all legal action. Overall, however, vote-buying in Taiwan's electoral process at the national level has to be considered more a cultural habit than an effective political stratagem, as it does not jeopardize the fairness or outcomes of elections, not least due to sharp media attention, strict regulations and aggressive prosecution by the authorities.

Free and fair elections

10



An increasing problem is the attempt by the Chinese government to interfere in Taiwan's electoral processes through spreading false news on social media and funding candidates opposing independence. The COVID-19 pandemic did not affect the January 11, 2020 general elections.

All elected rulers have effective power to govern, and there are no veto powers or exclusive political domains that might negatively affect democratic participation.

Effective power to govern

10



Freedoms of association and assembly are constitutionally guaranteed, generally unrestricted and extensively exercised. The right to strike is established by law. Existing restrictions on the freedom of assembly are specified by law, especially the Assembly and Parade Act, which originated in Taiwan's early post-martial law period, and which has been condemned repeatedly as excessively strict and in parts unconstitutional, both by domestic and international civil rights groups, and in a 2014 decision by Taiwan's constitutional court. According to that act, protesters require advance permission from the local police authorities, police can restrict protests near government buildings, and rallies may be subject to forceful dispersal by the police. Long-standing plans to amend the act, abolishing the government's authority to withhold approval for demonstrations, have been reiterated during President Tsai's electoral campaign in 2019, but have not been realized during the review period.

Association / assembly rights

10



Taiwan's response to the COVID-19 pandemic did not include severe lockdowns or curfews but only short-term restrictions, from March to June 2020, on the right to assembly, limiting open air gatherings to 500 and indoor assemblies to a maximum of 100 people.

Freedom of opinion and freedom of the press are well established and are exercised unrestrictedly, with vigorous and diverse reporting on government policies and alleged official wrongdoing. Taiwan's 2005 Freedom of Government Information Law guarantees public access to government documents. There is no media censorship. Individual incidents of police obstruction and violence against journalists covering demonstrations are reported, and journalists face defamation charges for critically reporting on politicians. However, no systematic media harassment or violence against reporters has been reported during the review period.

Freedom of expression

9



There are, however, concerns about increasing media concentration in the hands of tycoons with large-scale business interests in China, to the detriment of objective reporting and press freedom, and this trend has continued during the review period. There are also many stories about self-censorship of critical news reporting on China in those media outlets controlled by Taiwanese entrepreneurs operating on the mainland. In November 2020 the opposition blamed the National Communications Commission for not renewing the broadcasting license of the KMT-friendly CTi News TV channel for political reasons. However, most domestic and international observers, including Reporters without Borders, agree that the non-renewal does not represent an impingement on press freedom.

Taiwan's internet is free and modernized. There has been no official attempt to block websites that are critical of government policy. China has ramped up its anti-independence and DPP-critical information warfare campaign in recent years, which was especially visible in the run-up to the 2020 general elections. Despite government measures to counter misinformation related to the COVID-19 pandemic, including fining and arresting some perpetrators, Taiwan's COVID-19 response overall did not result in a restriction of freedoms of expression. Taiwan's media has reported widely, freely and critically on the pandemic and the government's responses.

3 | Rule of Law

The separation of powers into executive, legislative and judicial branches is well established and there is no extralegal execution of governmental power. The government system is structurally handicapped by the constitutional relationship between the president and parliament in times of divided government: While the popularly elected president appoints the head of the Executive Yuan (the premier) without the consent of parliament (the Legislative Yuan), the latter has the authority to dismiss the cabinet by a vote of no confidence against the premier. Since the president can dissolve the legislature in such a case, the powers of the parliament are limited and there are almost no institutional guards against political stalemate when the president and the legislative majority belong to different parties. Long-discussed plans on addressing these structural problems in changing the constitution toward either a pure parliamentary or presidential system are not on the agenda of the constitutional amendment committee formed by the Legislative Yuan in September 2020.

Taiwan's strategy to counter the COVID-19 pandemic did not involve the declaration of a state of emergency or the issuance of emergency decrees by the executive. The "COVID-19 Special Act," which grants executive agencies wide-ranging authority to decide and implement measures to combat the pandemic, and its implementation, are subject to parliamentary and judicial oversight and will automatically expire in June 2021 unless extended by the Legislative Yuan.

Judicial independence is well established in Taiwan and court trials are generally fair. Past allegations that courts are too closely allied to the KMT have not been substantiated by legally relevant evidence. According to the most recent data of the World Values Survey (2019), 56% of respondents in Taiwan expressed at least "quite a lot" of confidence in the judiciary. Nonetheless, large numbers of Taiwanese harbor long-standing and deep-seated mistrust in the effectiveness, political impartiality and fairness of the country's court system and judges. Addressing some of these concerns and making good on campaign promises, the DPP government has made some progress on judicial reform during the review period, working closely with civil society organizations pushing for judicial reform in a National Congress on Judicial

Separation of powers

10



1

Independent judiciary

10



1

Reform, and enacting legislation in July 2020 that instituted the participation of lay judges in criminal trials. However, many Taiwanese remain dissatisfied with the tempo and scope of judicial reform.

A range of sunshine laws regulate political donations, declarations of income for public servants and the rules for political lobbying. Political corruption receives a great deal of attention in the mass media, even though the majority of observers agree that the country performs reasonably well in preventing and prosecuting large-scale corruption. It is an important issue on the platforms of all relevant political parties and is prosecuted rigorously under criminal law.

An official Agency Against Corruption (AAC) was established in June 2011, mimicking similar institutions in Hong Kong and Singapore, and since 2013 an online database of government documents has further increased transparency. Fierce competition between the political camps, aggressive reporting and an educated and highly sensitive population ensure that high-profile corruption charges receive much publicity. Vote-buying in local elections remains a problem in Taiwan. It has been an established practice since the early days of democratization and regarded as inevitable by most politicians. However, the judiciary is prosecuting vote-buying activities and punishes those found guilty.

The constitution prohibits discrimination based on race, sex, religion, political opinion, national origin or citizenship, social origin, disability, sexual orientation and gender identity, and the authorities effectively enforce these prohibitions. Consequently, Taiwan enjoys a very good human rights record according to all relevant international observer groups and there are no reports of unlawful or arbitrary use of state power against the population or any specific minority.

Civil rights are constitutionally guaranteed and well protected, and those who violate them are taken to court. The judicial system provides ample opportunities to seek redress for rights violations. Court trials follow due process, and there are no reports of physical abuse of prisoners. The police largely respect the ban on arbitrary detention, and attorneys are usually allowed to monitor interrogation to prevent abuses. LGBTQ+ rights are protected, including the right to same-sex marriage, which was legalized in May 2019, making Taiwan the first Asian country to recognize same-sex marriages. Taiwan continues to adhere to the death penalty in the face of all domestic and international protest, with the government regularly citing opinion surveys to prove that a large majority of the populace supports capital punishment for serious crimes. Despite a first parliamentary reading in 2016, the country still does not have a refugee act, an issue that in the review period has repeatedly made the news due to the rise in number of Chinese asylum-seekers in the aftermath of the crises in Hong Kong in 2019. In addition, under Taiwan's notorious adultery law, sexual infidelity remains a criminal offense and "unfaithful" women tend to receive harsher treatment than men. As in other parts of East Asia, abortion of female fetuses, for example, is reported to be practiced in Taiwan, such that sex ratios at birth continue to be around 108 boys per 100 girls (2019).

Prosecution of office abuse

10



1

Civil rights

10



1

The rights and legal position of Taiwan's over 710,000 migrant workers (mostly from Indonesia, the Philippines and Vietnam), who primarily work as industrial laborers, marine workers and household caregivers, have been a long-standing problem in the country's civil rights record. Despite significant progress made in Tsai's first presidency, broad media coverage on their situation, and active civil society engagement for their rights, monitoring and enforcement of the Labor Standards Law that covers these blue-collar migrant workers remain problematic. Another point of contention remains the brokerage system, under which migrant workers have to pay high monthly fees to agencies that broker them to Taiwanese employers.

As part of the country's response to the COVID-19 pandemic the government briefly imposed bans on foreigners entering the country in spring 2020. Quarantine regulations for people entering the country remain after the lifting of the travel bans; the movement of quarantined individuals is tracked using the GPS on their smartphones. All these measures are based on the "COVID-19 Special Act," which is strictly limited in time, and subject to legislative and judicial oversight.

4 | Stability of Democratic Institutions

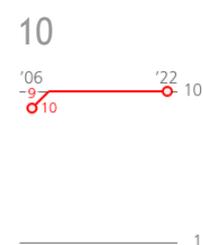
All government institutions are democratically legitimized, work according to legal procedures and are sufficiently controlled by a working system of mutual checks and balances. All political decisions are prepared, made, implemented and reviewed in legitimate procedures by the appropriate authorities. The existing semi-presidential system is prone to deadlock in times of divided government, and no meaningful attempts of constitutional reform toward a more coherent system of government have been made during the period under review. In addition, Taiwanese political competition is characterized by a fierce, zero-sum nature, both across and within party camps, which undermines lawmaking efficiency even in times where president and parliamentary majority are from the same party, as has been the case during the review period.

All relevant political actors accept the democratic institutions as legitimate and there are no attempts to realize political goals outside of legally defined democratic channels.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

The party system is relatively stable, socially anchored and enjoys broad popular support. Diverging opinions within popular and societal interests are reflected and aggregated reasonably well. Party system fragmentation is low; even though 20 parties participated in the January 2020 general elections, the party system is dominated by the two large parties, the DPP and the KMT.

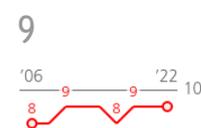
The importance of blocs of smaller parties allied with the DPP or KMT has declined in recent years due to the electoral success of new nonaligned parties. In the Tenth Legislative Yuan (2020 – 2024), the two large parties account for 99 out of the 113 members of parliament (87.6% of all seats; DPP: 61 seats; KMT: 38 seats), four seats fewer than in the previous legislature. Three small parties, the New Power Party (NPP), the Taiwan People’s Party (TPP) and the Taiwan Statebuilding Party (TSP), have won a total of nine parliamentary seats. This illustrates how party system volatility is relatively low, but the party system is sufficiently permeable to allow new political parties to enter.

Political polarization concerning Taiwan’s national identity and the camps’ diverging stances on Taiwan’s policy toward China has continued to decline. At the same time, increasing numbers of the population consider themselves as independent voters and not aligned to one of the big parties, and Taiwan’s sophisticated electorate casts its vote increasingly on pragmatic issues such as diverging economic strategies and plans for social and political reform.

Taiwan is home to a wide variety of civil society groups, including unions, professional and business organizations, social and environmental movements, and other associations, which represent a broad range of societal interests. This network of interest groups is close-knit, politically influential and operates independently of the state. There are no attempts by non-state interest groups to abandon democracy or organize political violence and no group is able to dominate others.

Parts of Taiwan’s civil society remain focused on ideological issues related to cross-strait policy and the unification/independence split, sometimes resulting in factional strife and public clashes, which became particularly visible during the 2014 “Sunflower Student Movement.” At the same time, the momentum generated by the student movement has also given important external impulses to the somewhat calcified political landscape and has contributed to put a range of social justice and civil rights issues on the political agenda, including judicial reform, LGBTQ+ rights, land rights for Taiwan’s aboriginal peoples, and the abolition of the death penalty.

Party system



1

Interest groups



1

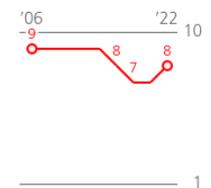
After years of declining voter turnouts, the 2020 general elections saw the highest participation in nationwide elections since 2008, with 74.9% of the voting population participating in the elections (up from 66.3% in the 2016 general elections). It is not clear that this marks a reversal of the long-term trend of declining turnout which, together with the availability of alternative forms of political participation and communication through social media and civic activism, reflected a continuing degree of disillusionment with the established political institutions. In fact, surveys show medium levels of trust in formal government institutions. According to the latest available data for Taiwan from the World Values Survey (2019), 52% of respondents expressed at least “quite a lot” of confidence in the national government. Trust in the representative organs is considerably lower, with only 24% and 31% trusting political parties and the legislature, respectively.

Still, the principle of democracy is uncontested in Taiwan, with 91% considering having a democratic system at least “fairly good,” and only marginal support for authoritarian alternatives, even if large numbers of the population express limited satisfaction with the way democracy works in Taiwan. There are signs that Taiwan’s decisive and highly successful response to the COVID-19 pandemic has at least temporarily generated increased confidence in the government, with Taiwan’s Minister of Health Chen Shih-Chung, recording record numbers in satisfaction polls.

Social self-organization is well developed in Taiwan. A variety of organizations, including an outspoken environmental movement, social groups and lively religious communities, are the backbone of Taiwan’s democracy. They create a climate of tolerance and a culture of nonviolence and democratic deliberation. However, based on the latest available World Values Survey (2019) data, almost 70% of all respondents in Taiwan express the opinion that one needs to be “very careful” in dealing with people. Yet, this relatively low degree of reported interpersonal trust does not undermine the overall strong social bonds, the variety of existing networks of mutual support, and the high levels of social responsibility many Taiwanese exhibit in their daily life. The latter was demonstrated not least in the broad acceptance and effectiveness of the government’s multidimensional anti-pandemic strategy.

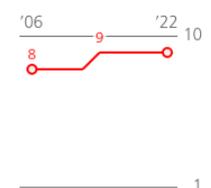
Approval of democracy

8



Social capital

9



II. Economic Transformation

6 | Level of Socioeconomic Development

Taiwan is a highly developed market economy. The country's level of socioeconomic development permits adequate freedom of choice for all citizens. Fundamental social exclusion due to poverty, gender, religion or ethnicity is qualitatively minor to nonexistent, and is not structurally embedded. Taiwan's average poverty rate, with varying thresholds set by municipalities, is low in international comparisons and stands at 1.29% of total population and 1.64% of households, with a relative poverty rate of 7.36% according to 2019 data. Recent years have seen an energetic domestic debate on rising social inequality in Taiwan caused by low economic growth, stagnant wages and their shrinking share of Taiwan's GDP. Income distribution – as measured by the Gini coefficient – is relatively equal, however, and has been stable around 0.34 since 2010 and throughout the review period.

According to the most recent data available (2019), Taiwan is considered a country with a very high human development, with a value of 0.916, ranking it at 23 in the global Human Development Index. Taiwan has a relatively low level of gender inequality, ranking sixth worldwide and first in Asia on the Gender Inequality Index (2019). The COVID-19 pandemic is not expected to have a significant negative impact on exclusion and equality, not least because of the government's swift and effective policies to contain the pandemic and cushion its socioeconomic fallout.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	590733.0	609198.0	612168.0	668156.0
GDP growth	%	3.3	2.8	3.0	3.1
Inflation (CPI)	%	1.1	1.5	0.5	-0.2
Unemployment	%	3.8	3.7	3.7	3.9
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	6.3	0.5	1.8	0.8
Import growth	%	3.2	1.5	2.4	-3.3
Current account balance	\$ M	83073.0	70843.0	65161.0	95095.0

Question
Score

Socioeconomic
barriers

10



1

Economic indicators		2017	2018	2019	2020
Public debt	% of GDP	34.5	33.9	32.7	32.7
External debt	\$ M	181938.0	191161.0	184659.0	189873.0
Total debt service	\$ M	4752.0	4439.0	12248.0	4848.0
Net lending/borrowing	% of GDP	-2.0	-1.9	-1.8	-2.9
Tax revenue	% of GDP	8.6	8.9	9.0	-
Government consumption	% of GDP	13.8	14.3	14.0	14.0
Public education spending	% of GDP	1.5	1.5	1.5	-
Public health spending	% of GDP	0.1	0.1	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.8	1.7	1.8	1.9

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Taiwan's market economy is institutionally sound. It features transparent, clearly defined and state-guaranteed rules for ensuring fair competition as well as largely equal opportunities for all market participants. An independent Fair Trade Commission supervises business practices to ensure fair competition. Business freedom is high and market actors face neither entry nor exit barriers.

Taiwan consistently ranks highly in global economic indices measuring ease of doing business, economic freedom and competitiveness. According to the 2020 Economic Freedom of the World Annual Report, Taiwan is ranked 16th in the world with a score of 7.94 out of 10 (based on 2018 figures), and 3rd in Asia behind Hong Kong and Singapore. The country continues to perform particularly well in ensuring sound money policies and prudent regulations. According to the Global Competitiveness Report 2019, Taiwan is ranked 12th out of 140 countries, and in the 2020 Index of Economic Freedom, Taiwan was ranked 11th worldwide and 5th of 42 countries in the Asia-Pacific region, with very high scores for integrity of the legal system and well-specified property rights, sensible regulation, and few restrictions in the freedom of business, monetary transactions and trade.

Market organization

9



1

The main limitations on Taiwan's economic openness remains the restricted access for Chinese firms to Taiwanese markets, despite the considerable liberalization since 2008. Investment in a number of strategic sectors like LED, solar cells and display panels remain capped for mainland investors at less than 50%. In non-strategic sectors of Taiwan's manufacturing industries, however, mainland Chinese capital can increase its ownership to more than 50%. While in 2019 existing regulations on foreign investment were simplified, limitations on PRC investment in sectors Taiwan considers areas of national security remained intact. Taiwan's shadow economy is relatively large for a highly developed industrial economy with estimates ranging up to 30% of GDP.

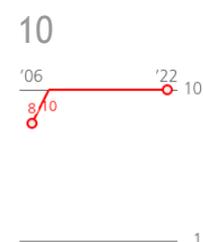
Even though the state maintains its monopoly over certain basic utilities and services (e.g., water supply and postal services), market competition is well established and legal frameworks exist to combat cartels. The Fair Trade Law that took effect in 2002 ensures a coherent and effective approach to combating monopolistic structures and predatory price fixing. The legal framework is enforced and administered by an independent Fair Trade Commission under the Executive Yuan. Since 2017, the monopoly of state-run Taiwan Power Co. (Taipower) in the electricity market has been effectively abolished, as "green" energy producers are now permitted to sell directly to customers.

Taiwan enjoys a high degree of trade freedom, as its economy is heavily reliant on its export economy. The country is one of the world's principal exporters of electronics and IT-technology. Tariff rates on industrial products are comparable to those found in industrialized nations such as Japan and the United States, and Taiwan generally follows WTO rules. With the exception of cross-Strait economic relations, the state refrains from intervening in investment planning and foreign trade. Intervention in the former mainly takes place in order to control the level of Taiwan's high trade dependency on China, but also to restrict mainland investment in sensitive sectors, most notably, real estate, finance and telecommunications.

Some 40% of Taiwan's exports and more than 60% of its outbound investment were to the Chinese mainland (including Hong Kong) over the last two decades, resulting in a high trade dependency on China, which worried critical observers for quite some time. The ratification of follow-up agreements to the cross-Strait Economic Cooperation Framework Agreement (ECFA) to liberalize further trade in services and goods across the Taiwan Strait has been paused since 2014.

Since September 2016, Taiwan has been following a "New Southbound" policy to diversify its trade relationships by deepening regional integration and increasing economic, trade and tourist links with 18 of its neighboring countries to the south (particularly the ASEAN nations, but also Australia and New Zealand), making the island less dependent on trade with China. In December 2020, Taiwan began informal consultations with member states of the Comprehensive and Progressive Agreement

Competition policy



Liberalization of foreign trade



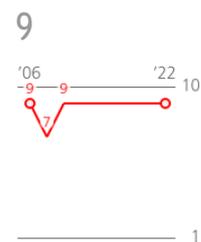
for Trans-Pacific Partnership (CPTPP), in preparation of formally applying to join the trade alliance.

During the review period, Taiwan's banking system has been stable. According to official data, at the end of 2020, Taiwan was home to a total of 6,001 financial institutions, with a large majority of the 3,403 branch offices belonging to 37 domestic commercial banks, which accounts for 79.5% of total deposits and 90.3% of total loans. 29 foreign (including mainland Chinese) banks were responsible for 1.6% of total deposits and 4.1% of loans. 23 credit cooperatives, which primarily service regional customers, account for 1.6% of total deposits outstanding and a market share of loans of 1.7%. In addition, Farmers' and Fishermen Associations run credit cooperatives with market shares of 4.2% in deposits and 3.9% in loans.

Taiwan has a tightly regulated and transparent banking system, which is effectively supervised by the Financial Supervisory Commission (FSC) and an independent central bank. The capital and stock markets are reasonably developed and in principle open to foreign participation. Banks benefit from a high proportion of stable customer deposits and flexibility to access domestic capital markets. The system's low use of cross-border funding makes it less vulnerable to contagion risks during periods of turbulence in global capital markets such as the 2008/9 global financial crisis and the COVID-19 pandemic. The official non-performing loans (NPL) ratio of Taiwanese domestic banks was 0.23% in November 2020. The capital adequacy ratio of Taiwan's domestic banks stood at 14.1% in mid-2020, well above the statutory Basel III minimum of 10.5%. A stress test of 36 domestic banks conducted in June 2020 by the FSC found Taiwan's banking system to be stable and well equipped to weather the financial risks of the COVID-19 pandemic.

On the negative side, the banking sector remains dominated by fully and partially state-owned banks such as Taiwan's state-owned Chunghwa Post, which operates the country's largest savings service, with 1,299 local branches, accounting for 13.2% of total deposits in November 2020. The banking system is also highly fragmented, having the lowest banking concentration ratio of the large financial systems in the region. Processes of concentration are ongoing, but very slow. While this reduces the threats of excessive concentration in a few "too big to fail" institutions, it has led to fierce competition, which drives down profitability close to unsustainable levels.

Banking system



8 | Monetary and fiscal stability

Taiwan's government and central bank pursue a prudent foreign exchange policy that has been consistently linked to the goal of financial and economic stability. They have steered the county rather well through the 2008/2009 global financial crisis and its aftermath. Taiwan's central bank is fully independent and enjoys one of the best reputations in Asia for its cautious and reliable interest rate policies. As a result, inflation levels and volatility have been low during the review period with the consumer price index (CPI) at 0.56 % in 2019 and a slight deflation as a result of the COVID-19 pandemic of -0.23% in 2020. In 2020, the New Taiwan Dollar (NT\$) saw a slight devaluation in relation to the U.S. Dollar, with a projected average exchange rate of 28.15 (from 30.16 in 2018 and 30.93 in 2019).

Taiwan's outstanding total public debt (measuring non-self-redeeming debts across all levels of government) was projected to be 34% of GDP in December 2020, up from 32.7% in 2019, but relatively similar to the 2018 figure. This is comparatively low by global and regional standards and shows that economic macrostability in Taiwan has not been affected strongly by the COVID-19 pandemic. The government's response to the pandemic is in line with Taiwan's long track record of prudent fiscal policymaking and resolute debt control, underlining the government's effective crisis management capabilities. Taiwan's foreign exchange reserves reached a new record high of \$529.9 billion in December 2020.

9 | Private Property

Taiwan's property rights regime is well established and enforced by an independent judiciary. Nationalization and expropriation of private property is regulated by law, which requires fair compensation. The country consistently ranks high in terms of property rights in global economic freedom and business environment indices. This is despite individual disputes over land expropriation that have received much media attention in recent years and have highlighted vague language in Taiwan's Land Expropriation Act, and deficient implementation of compensation regulations. While Taiwan is not a member of the World Intellectual Property Organization (WIPO), it adheres to the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS). In 2008 the country established an Intellectual Property Court. Since 2009 Taiwan has no longer featured in the U.S. Special 301 Watch List of countries with inadequate intellectual property laws.

Monetary stability



Fiscal stability



Property rights



Taiwan's economy is primarily based on small- and medium-sized private companies, which are adequately protected by the state. The state continues to be directly involved in some “strategic” economic areas (including shipbuilding, petroleum, steel, sugar, tobacco and liquor, banking, insurance and railway transport), in some cases holding the majority of shares. Basic utilities (such as conventional power production, water supply, and postal services) remain monopolized by Taiwan's 17 state-owned enterprises (SOEs), even though a January 2017 amendment to the Electricity Act allows “green” energy producers to sell directly to customers. The government upholds price controls on electricity and salt, and regulates prices on fuel and pharmaceuticals. SOEs such as the oil producer CPC Corporation, and Taiwan Tobacco and Liquor Co. continue to have market shares of 70% and more, even in liberalized markets. Except for the state monopolies, SOEs compete directly with private companies. The eventual privatization of SOEs (such as CPC Corporation, Taipower, and Taiwan Sugar) has been on the Tsai administration's agenda since 2017, but little progress has been made during the review period.

Private enterprise

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10 | Welfare Regime

With social welfare expenditures accounting for 25.2% of the government budget in 2020, which make it the single largest budgetary item, Taiwan continues to have one of the most comprehensive and well-developed welfare regimes in Asia. The social safety net is closely knit and provides substantial protection against poverty and other social risks. The state provides a compulsory National Health Insurance (NHI) program for all citizens, including foreigners who have lived in Taiwan for more than 6 months, unemployment insurance, voluntary labor pension with portable retirement accounts, and mandatory coverage by a national pension scheme, which includes the unemployed, non-working spouses and freelancers. Financial support is also given to the disabled and disadvantaged households, including living cost allowances, health care and special subsidies. Moreover, amendments to the Public Assistance Act, which came into force on July 1, 2011, stipulate the conditions of long and short-term assistance to lower and middle income households by providing living subsidies covering different areas of threatened well-being. The 2015 Long-term Care Services Act introduced a legal framework dealing with the long-term care requirements of Taiwan's rapidly aging population.

Social safety nets

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Following the January 2013 reform of the NHI, which aimed to increase revenues and balance the structural deficits that had plagued the system since its inception, the government now funds at least 36% of the NHI budget, the rest being financed by premiums paid by the insured and employers. The NHI budget is supplemented by a charge of 2% on non-payroll income from stock dividends, interest earnings, rents and bonuses exceeding four months' salary, as well as additional income from the Health and Welfare Surcharge on Tobacco Products (NT\$20 or \$0.60 per standard

pack of cigarettes), as well as proceeds from the national lottery. Military conscripts, prison inmates and low-income households do not need to pay; their premiums are fully paid by the government. Since 2017 NHI expenditures have been slightly larger than revenues, which has led to a slow decline in its still well-endowed and stable safety reserve fund. As such, the NHI was well equipped to handle the outbreak of the COVID-19 pandemic in early 2020.

The pension system for Taiwan's 450,000 retired public servants and military personnel has long been identified as a potential hot spot of the country's social safety net, with numerous pension sub-systems projected to run out of money within the next decade without adjustments. Despite the introduction of reforms in President Tsai's first term to consolidate these public pension systems, the financing of social safety nets is likely to become a problem in the future due to Taiwan's aging society. As part of the government's comprehensive COVID-19 response plan, the "COVID-19 Special Act" involved a range of measures to soften the economic and social impact of the pandemic on individuals. These include loan reliefs, employment assistance, tax reductions and cash subsidies to disadvantaged groups such as seniors, young people, and people with disabilities.

According to the constitution, all citizens are equal before the law "irrespective of sex, religion, race, class or party affiliation." Women's rights have been continuously strengthened in recent years, with a focus on preventing and legally condemning domestic violence and sexual assault, but also on protecting women's labor rights. A cabinet-level Department of Gender Equality was formed in 2012. The Gender Equality in Employment Act, last amended in 2013, stipulates that the principle of equal pay for equal work must be respected, while adequate mechanisms to prevent sexual harassment are implemented in every workplace. Employees – both female and male – may apply for unpaid parental leave of up to two years in order to care for their children under the age of three. The act also ensures women the right to eight weeks of paid maternity leave.

According to the most recent 2021 "Gender at a Glance" report, which is based on 2019 data, Taiwan would have ranked first in Asia and sixth in the world according to the UN Gender Inequality Index (GII), with a calculated index value of 0.045 (a score of 1 meaning extreme gender inequality). This is mirrored in women's strong role in education and the economy. In 2014, female university students for the first time outnumbered their male counterparts, and in 2018, women accounted for 52.8% of college graduates. In 2018, the labor force participation rate for women aged 15 and over was 51.4%, compared to 67.3% for men. The gender pay gap has declined in comparison to the previous review period, with women earning on average 14.2% less than men (down from 16% in 2017). In regard to the Gender Gap Index (GGI), which measures gender gaps in economic participation, educational attainment, political representation, and health, Taiwan continues to make solid progress. On the 0 to 1 scale, with 1 marking the highest degree of equality, in 2019 Taiwan stood at 0.75, ranking it at 29 globally (up from 0.73 and 33 in 2017).

Equal opportunity

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The greatest problem concerning gender equality is related to deeply entrenched cultural traditions, which has had an impact on the legal system. There is, for example, much pressure on women to waive their inheritance rights in favor of their male relatives, as according to traditional practice, only men can pass down property and the family name.

Taiwan's indigenous peoples, who account for approximately 2% of the total population, have access to a number of social welfare programs based on specific laws to protect their rights. These include low-interest housing loans and rent subsidies, privileged access to senior high schools and universities, a 1% quota within the workforce at government agencies, public schools and state enterprises with 100 or more employees, and the protection of their language and culture. The social gap between these native groups and the Taiwanese Han-majority has narrowed over the years, but inequality still exists.

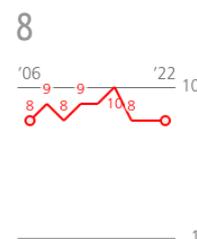
11 | Economic Performance

During the review period, Taiwan's highly developed economy has performed reasonably well, given the disruptions in the global and Mainland Chinese economies due to the COVID-19 pandemic: Taiwan's economy grew robustly by 3.0% in 2019 and is projected to have grown 2.5% in the pandemic year of 2020. Inflation levels and volatility have been low during the review period, with the consumer price index (CPI) at 0.56 % in 2019 and a slight deflation due to the COVID-19 pandemic of -0.23% in 2020. After a slight 1.5% decline in 2019, exports saw a solid 4.9% growth in 2020. Imports remained relatively stable during the review period, rising by 0.3% in both 2019 and 2020. Throughout the review period, Taiwan recorded solid trade surpluses, with \$43.5 billion in 2019 and \$58.8 billion in 2020.

Thanks to Taiwan's successful handling of the COVID-19 pandemic, unemployment remained stable throughout the review period, with a labor force participation rate of 59.1% and unemployment rate of 3.68% in late 2020. Somewhat concerning is the relatively high share of young people among the unemployed, which has been stable for some years, with a jobless rate of around 12% among Taiwanese between the ages of 16 and 24 (2020).

Tax revenues totaled 12.7% of GDP in 2020. Despite declining from an all-time-high of \$83.1 billion in 2017, Taiwan's current account balance maintained a solid surplus of \$70.8 billion in 2018 and \$65.1 billion in 2019. Gross capital formation rose in the review period from 3.2% in 2018 to 10.2% in 2019 and a projected 3.8% in 2020.

Output strength



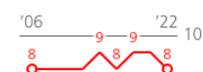
12 | Sustainability

Environmental awareness has been on the rise in Taiwan since the 1980s, primarily because of a strong social movement that pushed the government to make environmental protection a major factor in economic policy planning. Today, environmental protection is institutionally integrated through the independent, cabinet level, Environmental Protection Administration (EPA), and at the subdivisional level within different government entities, resulting in systematic environmental policy planning and a decreasing externalization of costs over the years. Taiwan has a relatively sophisticated regulatory framework for environmental policy in place, and there is a broad consensus that economic development must be ecologically sustainable. In 2016, the Ministry of Economic Affairs (MOEA) launched the five-year Green Trade Action Plan to reduce the carbon footprint of trade in products and services and to support Taiwanese companies in meeting international environmental standards. As part of the government's Forward-looking Infrastructure Development Program, significant resources are allocated to expanding Taiwan's green energy production, improving water environments and expanding the country's railway system. In addition, the second Tsai administration has established a number of smaller targeted initiatives and programs to improve air quality and facilitate environment-friendly traffic, including the promotion of cycling and the development of "intelligent" transportation management.

Taiwan is heavily dependent on the importation of energy sources, with 97.9% of its total energy supply being imported in 2019. Energy is mainly generated from the burning of fossil fuels, with oil, coal and natural gas accounting for 91.7% of all energy supplies in 2019, which marks a slight decline from 93% in the last BTI report. The contribution of nuclear power and renewable sources to Taiwan's energy-mix has expanded marginally over the review period, contributing 6.3% percent and 2.0%, respectively. Consequently, greenhouse gas emissions pose the most serious long-term problem for Taiwan's environmental performance. The development of green technologies and mechanisms for raising energy efficiency has been an important objective of Taiwan's governments since 2010. The 2014 "National Green Energy and Low Carbon Master Plan" stipulates 10 individual measures, including an adequate regulatory framework, the lowering of the share of energy derived from fossil fuels, and environmental education and public instruction. In June 2015, the Greenhouse Gas Reduction and Management Act was passed by the Legislative Yuan, which set a target of reducing Taiwan's greenhouse gas emissions to less than half its 2005 level by 2050. However, throughout the review period, Taiwan has not made sufficient progress in decarbonizing its economy to meet the self-declared goal of following the Paris Climate Change Agreement. The reduction of CO₂ emissions is complicated by the Tsai-government's decision to take off the grid Taiwan's three nuclear power plants by 2025, which has been a major goal of Taiwan's vocal environmentalist movement. The DPP government is determined to follow through

Environmental
policy

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on the phase out, despite a 2018 referendum vote against the end of nuclear power in Taiwan. To offset the reduction in power supply, the administration has proposed to expand Taiwan's coal-fired power plants, which triggered much protest by environmental groups. To date no solution has been found for securing Taiwan's power supply once it has phased out nuclear power production. Taiwan's ranking in the Environmental Performance Index declined from 23 in 2018 to 40. Yet, the decline in ranking was relative to the other countries in the ranking. It does not constitute an absolute decline in environmental policy. In fact, the country performs considerably better than most countries in the region, ranking fourth out of 25 in Pacific-Asia, and performs especially well in the areas of air quality, ecosystem vitality and energy conservation.

Taiwan has a very well-developed education system with high-quality secondary and post-secondary education as well as vocational training, reflecting the importance given to education in a society still heavily imbued with Confucian values. In 2019, Taiwan reported a literacy rate of 99%. Gross enrollment rates stood at 94.2% for all levels of education and 85.2% for tertiary education, which is very high compared to international figures. Since 2014, tuition-free education has been extended from 9 to 12 years, with the first nine years being compulsory (six years of elementary school and three years of junior high school). As of 2019, almost all junior high school graduates continued on to further studies, including academic senior high school or vocational training in technical high schools, and 35.4% of Taiwan's population aged 15 and above had a college or university degree. Overall, this ranks Taiwan as 23 worldwide in skill development according to the 2019 World Economic Forum's Global Competitiveness Report.

Education policy is aimed at maintaining and improving Taiwan's educational standards: in April 2017, the training and qualification requirements for preschool educators were formalized. School curricula undergo continuous reform to maintain the education system in line with international developments, even though it is very hard for Taiwan to do away with the tradition of rote learning at the primary and secondary level. On the other hand, Taiwanese pupils are regularly among the world's best performers in international comparative tests. According to the most recent PISA test, published in 2019, Taiwan's 15-year-old students ranked 8 overall, 5 in mathematics and 10 in science.

Total expenditures for education stood at 4.8% of GDP in 2019, which is not particularly high in international comparison, given the fact that Taiwan is an industrialized nation in which a good education is of pre-eminent significance. However, with 20.2% of all government expenditures in 2019, education is the second largest item on Taiwan's government budget.

R&D is a major concern for Taiwan's natural resource-poor economy and has long been a policy priority. In 2014, the former National Science Council was upgraded to the Ministry of Science and Technology (MOST). The Taiwanese government

Education policy /
R&D

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manages 13 science parks spread out all over the island, which offer infrastructural hardware and services to high-tech firms. It focuses its resources on the development of cutting-edge technologies like nanoscience and nanotechnology, intelligent electronics, cloud computing, genomic medicine and biotechnology. The government's Forward-looking Infrastructure Development Program Next includes significant investments in Taiwan's digital infrastructure and human capital. In addition, the second Tsai administration launched a number of smaller targeted initiatives to improve Taiwan's R&D environment, including a plan to cultivate local and recruit international talent, an innovation scheme to expand the country's biomedical industry, an emerging industries R&D program, and measures to facilitate the adoption of AI in Taiwan's industry.

R&D spending is very high in comparison to international standards, with overall expenditures at 3.36 % of GDP in 2018, of which 18.8% of R&D expenditures were funded by the government and 80.3% by private investment. In the 2019 World Economic Forum's Global Competitiveness Report of 140 countries, Taiwan is ranked fifth in overall R&D expenditures, and third in patent applications, leaving the country ranked seventh in the research and development category.

Governance

I. Level of Difficulty

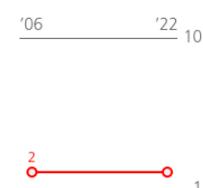
Taiwan experiences few structural constraints on governance thanks to its high level of socioeconomic development; its sound market economy and good economic performance; a well-developed education system and research environment; a well-qualified labor force; a capable bureaucratic apparatus; relatively low social disparities in terms of income and status; a lack of serious ethnoreligious conflicts; and an unchallenged state monopoly on the use of force. Social movements and social interest organizations of all types are firmly embedded within society and play an essential part in the daily exercise of democracy.

However, Taiwan is a small island country, roughly two-third of its landmass is mountainous, and the country is handicapped by a high exposure to natural calamities, as typhoons and earthquakes hit the island every year and tax the government's administrative capabilities and financial resources. Moreover, Taiwan is almost completely dependent on energy imports, which leaves it vulnerable to external shocks. An increasingly pressing problem is Taiwan's aging population. For a long time now, Taiwan has had one of the lowest birth rates across the globe, and 2020 marked the first year in Taiwan's history that its total population saw a net decline. Even though almost one-fifth of Taiwan's population is aged 65 or above, Taiwan has mastered the COVID-19 pandemic very well, with fewer than 900 confirmed cases and seven deaths as of January 2021. Taiwan's main structural constraint is its diplomatic isolation and China's de facto veto power concerning its participation in the international community as a sovereign state, which significantly impedes its self-determined management of international relations. During the review period, China further ramped up its pressure, limiting Taiwan's political and economic maneuvering space.

Taiwan's civic engagement has strengthened continuously since the end of the authoritarian era in the mid-1980s, when social movements played a major role in the transition to democracy and then contributed substantially to democratic consolidation. Today, Taiwan has one of the most vibrant civil societies in Asia, characterized by numerous NGOs engaged in a vast range of public activity. Ideological polarization and division concerning issues of national identity and Taiwan's relationship to China still play a role and at times impact negatively on the state–society relationship. However, the “Sunflower” movement of 2014 not only gave Taiwan's civil society a new push and political relevance, but also proved the

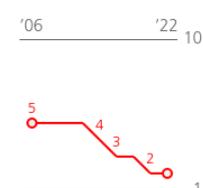
Structural
constraints

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Civil society
traditions

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political system's ability and flexibility to react to articulated grievances and channel them through political competition in the party landscape in the form of the emergence of the New Power Party as a self-declared alternative "third force" next to the two main party camps.

There is no politically motivated violence in Taiwan. The old conflict between mainlanders and native Taiwanese has evolved into a cleavage within society concerning Taiwan's future political relationship with China and the most sensible approach to secure the nation's sovereignty, long-term security and prosperity. However, the ideological confrontation between those leaning toward Taiwanese de jure independence and those favoring reconciliation with China (while maintaining Taiwan's sovereignty and de facto independence) continues to dominate the political arena and has contributed to highly contentious inter- and intraparty competition and zero-sum politics. In addition, this divide has provided a fulcrum for China's divide-and-rule strategies that aim to weaken political cohesion and set political parties against each other.

Conflict intensity

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'06 '22 10



II. Governance Performance

14 | Steering Capability

In general, Taiwan's government sets strategic priorities and only rarely postpones them in favor of short-term political benefits. Moreover, no political actor in Taiwan departs from the basic priorities of maintaining and further developing the already high normative standards of Taiwan's market-based democracy achieved in the preceding decades.

In practice, however, the government's ability to implement carefully set strategic priorities has been limited due to China's de facto veto power over Taiwan's foreign policy ambitions, and the considerable polarization in Taiwan's public sphere concerning the best approach to deal with Beijing's direct and indirect political and economic influence. The latter issue continues to dominate the substantive differences between the two party camps, leading to fierce zero-sum political competition. Given Taiwan's system of government, this can lead to deadlock in times of divided government. When the president has a robust parliamentary majority, political prioritization and wide-ranging reforms are much easier. This was the case during the review period in which the Tsai Ing-wen government could rely on its majority in the legislature.

Under excellent conditions for coherent policies and strategic prioritization after her re-election in 2020, Tsai Ing-wen and her administration was able to set and quickly

Question

Score

Prioritization

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'06 '22 10



adapt policy priorities, which included an effective, coordinated and comprehensive state response to the COVID-19 pandemic. The pandemic itself did not have a negative impact on agenda-setting and policy-prioritization, besides the necessity to focus much political capital on the response. Given the country's relatively swift success in controlling the pandemic and minimizing its economic and social fallout, the government was quickly able to move out of a crisis-mode of decision-making.

As Taiwan's market economy and democratic order are already well developed, any assessment concerning the implementation efficiency of the government's priority policies starts from an advanced vantage point. Moreover, the day-to-day implementation of political decisions by Taiwan's differentiated and professional administration works well, and there have been no cases of serious administrative obstruction or bureaucratic foot-dragging.

Throughout the review period, conditions for effective and efficient implementation have been excellent, with the DPP controlling the presidency and parliament. When confronted by the COVID-19 pandemic, the government was able to quickly implement effective measures to contain the disease and cushion the pandemic's socioeconomic fallout. A three-pronged strategy combined strict disease containment (border control and travel bans, quarantine regulations and contact tracing, and extensive use of masks and testing), economic relief (subsidies and tax reductions for struggling businesses, support for underprivileged citizens, and a range of stimulus activities), and support to international partners in their response to the pandemic. Not least due to the rapid and effective Taiwanese state reaction, the pandemic did not have a significant negative impact on the implementation of major government policies in the country.

Political learning in Taiwan tends to occur in economic and social policymaking, thanks to the leadership's generally close-knit relations with well-established social organizations and interest groups who keep it informed of the need for policy adjustments and new initiatives. Taiwan has a widely stretched system of special committees equipped with scholars and bureaucrats who are affiliated with or attached to government ministries and commissions in order to evaluate policies and give advice on identified shortcomings and necessary corrections.

The DPP and President Tsai Ing-wen reformulated their stance on cross-Strait policy prior to the 2015/16 elections and President Tsai Ing-wen tried to steer a middle road for much of her first term in office. However, the review period saw a determined government stance for Taiwanese self-determination and democracy, in reaction to increased pressure from Mainland China and the spring/summer 2019 crisis in Hong Kong.

The Taiwanese government's response to the COVID-19 pandemic, which is considered one of the most successful in the world, is a direct result of political and administrative learning from the 2002/03 SARS pandemic, which had highlighted the

Implementation

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Policy learning

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weaknesses of Taiwan's disease control system. Effective learning and adaptation also took place during the 2020 pandemic, with the government updating its various relief and support programs to further improve the effectiveness of its disease-containment measures and cushion the socioeconomic impact of the pandemic.

15 | Resource Efficiency

Taiwan has a long history of efficient bureaucratic policymaking, which earned it the label of a successful development state. Against this background, and compared to most countries in Asia, the Taiwanese government makes efficient use of available economic and human resources to pursue its policies.

While the top positions in Taiwan's government and administrative bodies are filled with political appointees who may or may not be experts in their area of responsibility, the rank-and-file is recruited according to established rules and qualification levels. As a special constitutional organ, the Examination Yuan is responsible for the education, recruitment and evaluation of the country's public officials. Petty corruption is uncommon and high-profile cases of corruption in Taiwan's bureaucratic apparatus are rare and usually involve politically nominated public officials, not professional civil servants.

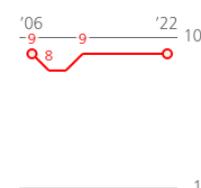
Taiwan's public sector makes efficient use of taxpayer's money. Representing 15.4% of GDP in 2019, government consumption is relatively small compared to other highly developed countries, and state budgets tend to be balanced, with a manageable total state debt of 31.2% of GDP in December 2020, well below the 40.6% debt ceiling mandated by the Public Debt Act. Effective auditing is ensured by the Ministry of Audit under the Control Yuan, an independent policy body headed by an auditor-general nominated by the president and appointed by the Legislative Yuan. Budget planning and implementation is transparent, and both the individual ministries, as well as the cabinet-level Directorate General of Budget, Accounting and Statistics (DGBAS), publish a wide range of data on expenditures and programs.

Taiwan's resource efficiency is reflected in its good showing in a number of international indexes. For instance, it ranked 12th out of 141 in the 2019 Global Competitiveness Index, which includes, among indicators, government efficiency.

As part of the government's response to the COVID-19 pandemic, the legislature approved a special budget to finance a number of industrial relief and economic stimulus measures, which had been expanded twice by August 2020. All these allocation decisions and their implementation occur in alignment with the "COVID-19 Special Act," which is subject to parliamentary and judicial oversight.

Efficient use of assets

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Traditionally, Taiwan's political system has been shaped by both personal ties and bureaucratic networks stretching across all government tiers, which ensures effective policy coordination and coherent policies. It is strongly influenced by the president, who not only determines the foreign and China policy agenda but is also expected to resolve conflicting policies and competing interests within the government apparatus. Since the president nominates the prime minister without parliamentary consent, there is usually a high degree of like-mindedness between the presidential and prime ministerial offices.

Structurally, Taiwan's semi-presidential system of government is best prepared for policy coordination when the president and the parliamentary majority are controlled by the same party but weakens the likelihood of coordination in times of divided government. With the DPP controlling both the presidency and a majority in the Legislative Yuan throughout the review period, political coordination has been rather smooth during the review period and the government has been able to pursue its political aims and realize its campaign promises. Consequently, Taiwan's response to the COVID-19 pandemic has been exceptionally well coordinated, swift and effective.

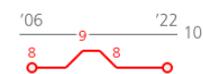
Taiwan possesses a well-developed framework of strict and stringently enforced anti-corruption regulations that target bribery of civil servants and public officials, and commercial corruption between private enterprises.

The legal framework for combating corruption is based on the Criminal Code and a number of "sunshine bills" that have been passed since the early 1990s, including the Anti-Corruption Act, which was last amended in June 2016. Political corruption is targeted by the Public Functionary Assets Disclosure Act of 1993, which requires the declaration of all income and assets by high-ranking officials and elected representatives. The 2004 Political Contribution Act limits political donations and makes campaign financing more transparent. A lobbying act implemented in August 2008 requires lobbyists to register their activities and local government officials and elected representatives to inform their responsible agencies of their communication with lobbyists. The 2011 Anti-Corruption Informant Rewards and Protection Regulation put in place a framework to protect whistle-blowers reporting corruption and defines rewards for informing the authorities of corruption cases.

A Special Investigation Division, under the Supreme Court Prosecutors Office, investigates corruption issues involving the president and other high-ranking government officials, including general-ranked military officials, as well as corruption in elections. Building on the example of Hong Kong and Singapore, Taiwan established an Agency Against Corruption (AAC) in July 2011 under the Ministry of Justice to make the prevention, investigation and prosecution of corruption more effective. The AAC prosecuted 279 cases of public corruption involving 805 individuals in 2019. The Control Yuan, a specific constitutional body that supervises government and public officials, partakes in the effort to curb political

Policy coordination

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Anti-corruption policy

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corruption. Its Ministry of Audit is responsible for ensuring that public resources are spent efficiently. Taiwan's media and public are very sensitive to political corruption and regularly play a role in exposing officeholders who have been charged with misbehavior.

Small-scale bribes to speed up administrative procedures and local vote-buying remain a problem in Taiwan but are considered an inherent part of local political culture rather than corruption. Small numbers of individual cases of vote-buying are reported in all elections, but offenders are prosecuted and there is a constant tension between the legal struggle against this practice on the one hand and its perceived inevitability as a social institution on the other. However, large-scale political corruption is not absent in Taiwan, as shown by a high-profile case in July 2020, in which six current and former legislators from across the political spectrum were detained and investigated for being involved in a \$1.3 million bribery case connected to the 2017 revision of the Company Act.

Compared to political corruption, commercial corruption is less stringently regulated. Big business and politics remain closely intertwined, and especially in public procurement, bribery of government officials and diversion of public money to private companies is reported. In recent years, Chinese government organizations have been accused of funding Taiwanese candidates opposing Tsai and the DPP through Taiwanese businesses operating on the Mainland. Despite repeated calls for the Legislative Yuan to pass the Commercial Anti-Bribery Act to address bribery in the private sector, no progress has been made during the review period.

16 | Consensus-Building

All major political actors firmly agree on maintaining and strengthening Taiwan's market-based democracy. The existing strong and partly ideological differences between the two main political camps concerning the proper approach toward the People's Republic of China and the independence-unification question, does not undermine the overall firm consensus among the elites and the public on Taiwan's identity as a democratic state with a market economy.

See above.

There are no anti-democratic veto actors in Taiwan.

Consensus on goals

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Anti-democratic actors

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The overall fierce and zero-sum tendencies of political competition in Taiwan lead to polarized discourses on many political issues. Examples from the review period include the exceptionally good relations of the Tsai government with the Trump administration in the United States, which were criticized by the KMT as politically imprudent cozying-up; and the highly politicized struggle in 2020 over relaxed import regulations for U.S. pork treated with the leanness-enhancing feed-additive Ractopamine.

However, the most serious substantive domestic cleavage remains cross-Strait relations, which constitutes the lens through which almost all other policy issues are interpreted. The ideological conflict between advocates of Taiwanese independence and a political arrangement with China has increasingly turned into a conflict on the scope, context and strategic timing of pragmatic cross-Strait policies and economic integration.

This conflict has remained fierce and was the dominant issue prior to the January 2020 general elections, when KMT presidential candidate Han Kuo-yu ran on a platform of, *inter alia*, “loving Chinese culture” and seeking a more conciliatory approach toward China. Political conflict over cross-Strait relations took a somewhat muted tone after the disastrous defeat of Han and the KMT in the 2020 general elections, the impression of increased Chinese diplomatic and military pressure after Tsai’s electoral victory, and the emergence of the COVID-19 pandemic. However, this conflict is far from solved and the KMT might refurbish its China policy to attack the DPP once the dust of the pandemic settles.

Generally speaking, civil society in Taiwan has meaningful access to political decision-making and is considered an important contributor to the formulation, implementation and evaluation of policies. Both the DPP and KMT have close ties with and in general welcome the contribution of civil society groups to the political process.

Moreover, the political system is sufficiently open to allow the direct political participation of civil society through the creation of new parties such as those that have formed out of the activist groups of the 2014 “Sunflower” protest movement, most notably the New Power Party (NPP), which won 5 out of 113 parliamentary seats in the 2016 parliamentary elections and one seat in 2020.

The government sponsors regular meetings with civil society leaders and invites them to national conferences on particular problems regarding economic and social development, environmental protection and educational reform. The Ministry of Justice has a long tradition of cooperating closely with civil society organizations. Civil society organizations formed a crucial part of the National Congress on Judicial Reform, which prepared legislation enacted in July 2020 that instituted the participation of lay judges in criminal trials. At the same time, ideological polarization continues to divide many movements and groups, thus making it difficult

Cleavage /
conflict
management

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Civil society
participation

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for them to speak to politicians from rival camps. Consequently, civil society participation is still conditioned by who is governing, though it is institutionalized at a high level.

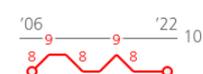
Observing the government’s COVID-19 pandemic response, some critics have expressed concerns toward the concentration of power in the hands of the Center Epidemic Command Center and the limited leeway of citizens to challenge the government’s anti-pandemic measures in the courts. Overall, however, the COVID-19 pandemic has not had a significant negative impact on civil society participation, and the government’s anti-pandemic strategy enjoys overwhelming support from broad segments of Taiwanese society.

The conflict between Mainlanders and Taiwanese (culminating in the “2-28-incident” of February 28, 1947, when troops brutally suppressed a popular anti-government uprising) and the crimes of the KMT regime during the “White Terror” era in the 1950s and 1960s were addressed during the 1990s and 2000s. Nonetheless, supported by academics and civil society activists, reconciliation and transitional justice remains on the agenda for the DPP. Most institutional steps toward transitional justice, for instance, the passing of several legal acts promoting investigations into the authoritarian era, as well as the establishment in 2017 of a cabinet-level Transitional Justice Commission (TJC), had already been taken early in President Tsai’s first term in office. The TJC was rocked by scandals in the first year of its existence. During the review period it has helped those who were victimized during the “White Terror” to tell their stories, exonerated them of their politically-motivated convictions, and helped them gain compensation from the government.

In addition, the TJC continues to investigate the history of state institutions under the authoritarian regime, as exemplified by a study, released in October 2020, on the role of KMT-control over the judiciary under martial law. In light of Taiwan’s highly polarized political competition, these measures continue to be criticized by the opposition as a DPP-ploy to weaken the KMT. The former authoritarian party, however, remains reluctant to openly deal with the dark side of its authoritarian past, especially with respect to its huge party assets accumulated during the martial law period. The DPP government also faces pressure from groups representing Taiwanese aborigines, who contend that their demands for adequate reparations for historical injustices, especially the loss of land, have thus far not been sufficiently addressed.

Reconciliation

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17 | International Cooperation

Similar to Singapore and South Korea, Taiwan is an industrialized high-income country with a level of human development comparable to most west European countries. Therefore, international assistance or support has a different meaning. In fact, Taiwan is a provider of international assistance, though only very few countries have established diplomatic relations with it or are willing to accept ODA-like support from Taipei, due to the fear of Beijing's retribution. For Taiwan, international assistance means political support and economic cooperation which can both be utilized to develop "soft power" as "the other, democratic" China, and to improve the island state's integration into the international community.

Taiwan's integration into the international community is constrained by China's strict stance on banning the country's access to all international organizations that are based on the principle of national sovereignty. However, under various euphemisms for its national title, Taiwan participates in a large number of international organizations. Taiwan's reputation for adapting to new circumstances and learning from its international environment has been well established since the days of the "Taiwan miracle." Within the international community, the country has earned a reputation for high credibility and reliability in implementing necessary market reforms. Since its accession in 2002, Taiwan has smoothly integrated into the WTO framework to facilitate global trade. It implements WTO rules well.

Efforts by the previous KMT government to enlarge Taiwan's "international space" through its conciliatory cross-Strait policies have predominantly failed to entice Beijing to change its stance. Since the DPP government took office in 2016, China has effectively frozen cross-Strait relations and further ramped up its pressure on partner countries to cancel diplomatic relations with Taipei. In July 2020, Taiwan established relations with Somaliland, which is not officially recognized as a sovereign state. However, the review period saw the number of Taiwan allies dwindle further, after Kiribati and the Solomon Islands terminated diplomatic ties with the country in 2019. As of January 21, only 15 countries, mainly island nations in the Pacific and small nations in the Caribbean and Central America heavily reliant on foreign aid, and the Holy See, maintain official diplomatic relations with Taiwan. Since the beginning of the COVID-19 pandemic, Taiwan has repeatedly asked for participation in the WHO and the World Health Assembly (WHA), which has been declined due to pressure from Chinese.

Since China prevents Taiwan's entry into most international and regional organizations and bodies which require state capacity, it is particularly important for Taiwan to demonstrate credibility, reliability and generosity in the international arena. By convincing the world's public that it rightfully claims sovereignty and that its diplomatic isolation deprives the international community of full use of Taiwan's

Effective use of support

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Credibility

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expertise and financial might, Taiwan enjoys a good reputation as a political partner and engaged donor of development aid and humanitarian assistance.

Under President Tsai's predecessor, Ma Ying-jeou, Taiwan abandoned "dollar diplomacy" as a means to trade financial support for international recognition, both for reasons of low effectiveness in the face of China's expansive loan and foreign investment strategy, and due to severe domestic public criticism. This has led to the further dwindling of Taiwan's remaining, mostly foreign aid-dependent diplomatic allies. Tensions across the Taiwan Strait have been high since the DPP came to power in 2016, with China enforcing its attempts to limit Taiwan's "international space."

Beijing has ramped up its pressure on Taiwan during the review period, following Chinese President Xi Jinping's open letter in early 2019 in which he threatened a unification by force. Despite being excluded from the WHO and the World Health Authority, Taiwan has effectively and reliably contributed to international efforts to combat the COVID-19 pandemic, which includes exchange of knowledge, as well as the distribution of masks and other medical material with diplomatic allies, the United States, the EU, Japan and partners of the New Southbound Initiative.

Acting within the limits imposed by Beijing's refusal of Taiwan's participation in international political organizations, Taiwan is a strong advocate of and reliable participant in initiatives that advance regional integration and cooperation. The country cooperates actively and successfully in regional and international organizations including the Asian Development Bank (ADB), the Asia-Pacific Economic Cooperation (APEC) and the WTO (though not under its official state name of "Republic of China").

Taiwan is involved in complex territorial disputes with China and Southeast Asian neighboring countries over the control of uninhabited but resource-rich (fish, petroleum, natural gas) Spratly and Paracel archipelagos in the South China Sea. The Tsai government's main international initiative has been the "New Southbound Policy," which aims to reduce Taiwan's reliance on China's market and foster cooperation with Taiwan's neighbors in the Asia-Pacific region, primarily with ASEAN nations, as well as Australia and New Zealand. Its main instruments are the promotion of economic collaboration, two-way exchanges of qualified workers, greater collaboration in multiple sectors, including tourism, technology and businesses, and the strengthening of Taiwan's bilateral and multilateral regional integration.

In 2020, Taiwan was actively involved in supporting the international effort to combat the COVID-19 pandemic through bilateral and multilateral channels. The main issue in Taiwan's international cooperation continues to be its relationship with mainland China, which continues to block Taiwan's inclusion in regional free trade regimes, most notably the ASEAN Free Trade Zone and the Regional Comprehensive Economic Partnership (RCEP) regime. Taiwan's economic and societal cooperation with the People's Republic has continued to deteriorate during the review period, as Beijing accuses President Tsai of working toward Taiwan's de jure independence.



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Regional cooperation

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Strategic Outlook

In terms of domestic political developments, the Tsai administration will be in a good position to effectively pursue its political agenda, able to draw on the DPP's comfortable parliamentary majority and capitalize on the great deal of trust the government's effective pandemic response has generated. Barring unforeseen exigencies, Taiwan is likely to master the remaining challenges of the COVID-19 pandemic, especially once vaccines are widely available.

In addition to plans to amend the constitution, which *inter alia* includes the abolishment of the Control Yuan, two domestic challenges will occupy the Tsai government in the near future. The first will be the question of how to ensure Taiwan's energy supply after the phasing out of nuclear energy in 2025 without becoming even more reliant on imported fossil fuels. The other will be the need to devise a more comprehensive strategy to deal with the effects of Taiwan's rapidly aging population.

However, above all, cross-Strait relations will continue to dominate Taiwan's political, social and economic development in the immediate future. The objectives of China and Taiwan are ultimately incompatible: whereas the former seeks eventual unification under the "one country, two systems" model, the latter wishes to maintain its sovereignty (or *de facto* independence). This is a fundamental contradiction that makes the Taiwan Strait a perennial hotspot in the regional security architecture and one of the most likely spaces for a power struggle between China and the United States. Against this background, it is unlikely that relations between Taiwan and China will improve and much will depend on factors Taiwan's decision-makers cannot control.

Concerning China, the "Taiwan question" will continue to be a matter of national relevance and will become increasingly prevalent the more the government in Beijing feels pressured into more aggressive nationalist policies by intra-elite struggles or by its confrontation with the United States. However, even below the threshold of Beijing demanding concrete steps toward unification, the PRC is likely to continue to use numerous instruments to maintain pressure on Taiwan over the next few years. These include an extension of military maneuvers in the sea lanes and airspace around Taiwan; cyber-attacks and intelligence operations; the ramping-up of campaigns in social and traditional media to spread misinformation, heighten polarization and undermine trust in the government; and further pressure on Taipei's remaining diplomatic allies to cancel formal relations.

Taiwan's long-lasting and friendly – if not always uncomplicated – relationship with the United States remains a close second in terms of importance and potential impact on the country's political and economic development. The Biden administration has signaled the continuation of President Trump's Taiwan-friendly stance, *inter alia* by inviting Taiwan's *de facto* ambassador, Hsiao Bi-khim, to the presidential inauguration ceremony.

In light of its relatively narrow latitude for unilateral action, the Taiwanese government is probably best advised to continue its current course of diversifying its economic ties and strengthening its political connections with its neighbors, who also feel the weight of a China that behaves in an increasingly assertive manner in what it considers its regional backyard. The “New Southbound” policy, as well as the new government initiative to facilitate the “return” of Taiwanese firms currently operating in China, are sensible steps in this direction.