BTI 2020 Country Report

Taiwan

Status Index
9.49 # 3
on 1-10 scale out of 137

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Stability of Democratic Institutions
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Political Participation
Stateness
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This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2020. It covers the period from February 1, 2017 to January 31, 2019. 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](https://www.bti-project.org).


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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, the 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 review period was characterized by the domestic policy agenda of the Democratic Progressive Party (DPP) government, which assumed office in 2016, and the worsening of cross-Strait relations. Domestically, the government of President Tsai Ing-wen drew on the support of the DPP’s super-majority in the Legislative Yuan to tackle a multitude of reforms promised during the previous election campaign. These included popular measures such as the minimum wage, environmental reforms and increased investment in industrial development and infrastructure, as well as a number of highly contentious policies, such as the reform of the Labor Standards Act, which among other things regulates the number of rest days, and the consolidation of the ailing national pension system for Taiwan’s 450,000 retired public servants and military personnel. Both the two latter reforms sparked considerable opposition as well as open and at times violent political protest. In addition, the DPP was rocked by a number of scandals and poor personnel decisions involving public and semi-public officials, most notably concerning Wu Yin-ning, the head of an influential Taipei-based agricultural organization, who was held responsible for significant drops in the market prices of fruit and vegetables, which hurt a large number of Taiwan’s farmers.

Together, the controversial reforms and public scandals led to a rapid drop in President Tsai’s approval ratings, which stood at 24.3% in December 2018, and contributed to the DPP’s disastrous showing in the November 2018 local and municipal elections, especially in rural areas. While the nationalist Kuomintang (KMT) won 15 out of a total of 22 city and county seats, the DPP lost seven of the 13 seats it previously held, including its former electoral strongholds Taichung and Kaohsiung. Tsai reacted to her party’s weak showing in the elections in the manner now typical
Taiwanese presidents facing a political crisis by retiring from the party leadership and reshuffling the government.

The review period also saw a further shrinking of Taiwan’s international space due to China’s increased pressure, despite gestures of support by the United States, Taiwan’s most important international ally. The U.S. support included the sale of modern weapon systems, the signing of the Taiwan Travel Act in March 2018 to facilitate the exchange of high-ranking officials between Washington and Taipei and the May 2018 opening of Washington’s new de facto embassy in Taipei. Beijing continued to freeze non-official contacts across the Taiwan Strait, restrict Taiwan’s participation in international organizations and increase pressure on Taiwan’s few remaining diplomatic allies to terminate cut relations with Taiwan. During the review period, a further three countries cut official ties with Taipei. Beijing also increased its military presence in the Taiwan Strait and was accused of meddling in the 2018 Taiwanese elections by funding opposition candidates and running anti-DPP social media campaigns. In light of these demanding circumstances, President Tsai has tried to steer a middle course. While refraining from formally accepting the “1992 consensus,” her actual policies and statements reflect an attempt to maintain the status quo without alienating her constituency. In order to increase Taiwan’s international space, the DPP government has launched the New Southbound Policy. The policy aims to reduce dependence on the Chinese market, diversify trade relationships, deepen regional integration and increase economic, trade and tourist links with Taiwan’s southern neighbors (ASEAN nations, Australia, New Zealand and Oceania).

Economically, Taiwan has done quite well in the review period and has recovered from the recent slump. Exports grew 13.2% in 2017 and are projected to have risen 5.9% in 2018. Inflation was very low in 2007 (0.6%) and almost stagnant in 2018 (-0.05%). The overall economy grew robustly by 3.1% in 2017 and by a projected 2.7% in 2018. GDP per capita rose from $22,592 in 2016 to a projected $25,048 in 2018. This situation is also reflected in the performance of Taiwan’s labor market. Unemployment shrunk to 3.71% in late 2018, although the relatively high unemployment rate among young people (around 12%) continues to be of concern. 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 $461.8 billion in 2018. Overall, Taiwan remained among the world’s top 20 economies in terms of macrostability, international competitiveness and market-friendly policies, despite the worsening of cross-Strait relations and Taiwan’s increasing political isolation since the DPP government came to power in 2016.
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. Politically paralyzed and delegitimized by corruption charges against himself, a number of family members and close advisers, Chen Shui-bian became a “lame duck” toward the end of his second administration and caused the DPP dramatic losses in the 2008 parliamentary and presidential elections. 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 pro-active China policy by restarting cross-Strait negotiations, the signing of numerous accords between Taipei and Beijing, which inter alia included a quasi-free trade pact (Economic Cooperation Framework Agreement), 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 elections.

However, eight years of an accommodating cross-Strait policy did not bring the solution of the sovereignty dispute between Taipei and Beijing any closer, such that by the 2016 general elections a large proportion of the population had grown disillusioned with the KMT government’s promises of greater cross-Strait integration. Consequently, the KMT not only lost the presidency to the DPP
candidate Tsai Ing-wen, but also its majority in the Legislative Yuan, where the DPP was able to secure 68 out of 113 seats, while the KMT won 35 and the NPP five seats. This marked the third peaceful change of power in Taiwan’s history, signifying the further consolidation of Taiwan’s democratic political system, which has become the “only game in town.” The single most pressing problem remains Taiwan's stressed relationship with the People’s Republic of China, which has become even more assertive since the 2016 elections. With China ramping up its pressure on Taiwan, a group of “deep green” activists has demanded a national referendum be held in 2019 to claim Taiwan independence. Overall, however, the overwhelming majority of the population continues to support the status quo in the Taiwan Strait and uncompromisingly sticks to Taiwan’s de facto sovereignty as a state, if not de jure independence.
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 (officially named the Republic of China) 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 to be resolved. The large majority of Taiwanese support the status quo in the Taiwan Strait, which constitutes the best compromise concerning their existential security interests in the face of China’s militant rejection of Taiwan’s formal independence and a distinct Taiwanese national identity, as well as their growing identification with the Taiwanese state and a desire for (internationally recognized) sovereignty and independence that has grown since the 1990s. This has continued under the more Beijing-friendly presidency of Ma Ying-jeou (KMT, 2008–2016), as well as under his presidential successor, Tsai Ying-wen. Without formally submitting to the so-called 1992 consensus, Tsai’s stand on identity has not deviated substantially from her predecessors’ policy of maintaining the status quo in the Taiwan Strait, bowing to the realities of strong economic ties with the mainland, while ensuring self-determination for the Taiwanese people and the nation’s democratic system.
In Taiwan, state legitimacy is fully derived from a secular constitution. Religious dogmas play no role.

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.

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 non-partisan Central Election Commission. In December 2017, the Referendum Act was reformed, significantly reducing bureaucratic obstacles to proposing and deciding referenda on the national level. The new law was exercised in November 2018, when 10 referenda questions were presented to the electorate during the nationwide nine-in-one local elections. Vote-buying (attracting voters with small gifts, free lunchboxes and small amounts of money given as “tokens of appreciation” has come to be expected by most voters in suburban and rural districts) in local elections. Such practices remain rampant and have so far survived all legal challenges. In the 2016 general elections, over 500 individual cases of vote-buying were reported. Similarly, in the aftermath of the November 2018 local elections, a number of individuals were arrested for electoral fraud and dozens of accusations – that Chinese government organizations funded Taiwanese candidates opposing Tsai and the DPP through Taiwanese businesses operating on the mainland – have been investigated. Overall, however, vote-buying in Taiwan’s national electoral processes 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 in those cases where vote-buying is extensive in a locality.
All elected rulers have effective power to govern, and there are no veto powers or exclusive political domains that might negatively affect democratic participation.

 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. It has been repeatedly condemned for being too strict and including unconstitutional parts by domestic and international civil rights groups and in a 2014 decision by Taiwan’s Constitutional Court. According to the act, protesters require advance permission by 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 not been realized during the review period.

 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, but no systematic media harassment or violence against reporters have been reported during the review period. However, worries about an increasing media concentration in the hands of tycoons with large-scale business interests in China, to the detriment of objective reporting and press freedom, have continued during the review period. Also, there are many stories about self-censorship of critical news reporting on China in those media outlets controlled by Taiwanese entrepreneurs operating on the mainland. Taiwan’s internet is free and up to date. There has been no official attempt to block websites that are critical of government policy.
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 in cases of divided government (i.e., when the president and the legislative majority belong to different parties). The debate on constitutional reforms to address these structural problems and transition toward either a purely parliamentary or presidential system, which had been repeatedly proposed in the past, has not gained momentum during the review period, despite declarations early in Tsai’s period in office to address these issues.

Judicial independence is well established in Taiwan and court trials are generally fair. Judicial corruption is not a concern. Past allegations of courts being too closely allied to the KMT have not been substantiated by legally relevant evidence. This is exemplified by the sentencing of former president Ma Ying-jeou to four months in prison for leaking politically sensitive material during his time in office, even though Taiwan’s top court in January 2019 revoked this conviction and ordered a re-trial because of procedural errors. Fulfilling President Tsai’s 2016 presidential election campaign promises, the government has proposed plans to reform Taiwan’s judicial system, which include empowering the Constitutional Court to review the constitutionality of rulings made by lower courts and a greater participation of lay people in judicial procedures (introduction of a jury system). However, until the end of the review period, all efforts to push for judicial reform have failed to reduce the long-standing and deep-seated popular distrust in the effectiveness and fairness of the country’s court system.

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 most observers agree that the country does 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 (e.g., allegations against former president Ma Ying-jeou or former Legislative Yuan secretary-general Lin Hsi-shan’s (KMT), who was given a 16-year prison sentence in May 2017) receive substantial publicity. Vote-buying in local elections remains a problem in Taiwan as it is 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. In May 2017, Taiwan’s Constitutional Court ruled that it was unconstitutional to ban same-sex marriages and demanded a legal solution within two years. At the same time, lawmakers could not agree on a reform of the civil code to enshrine marriage equality, and the issue was put to the electorate in three different referenda alongside the November 24, 2018 elections. On one question, a large majority voted to restrict marital rights under the Civil Code to marriage between one man and one woman, and against same-sex marriage rights. Yet, on a second question, a majority voted to protect the rights of same-sex couples outside of the Civil Code. Progress made in previous years concerning the rights and legal position of migrant workers in Taiwan was further substantiated during the review period. Taiwan hosts 700,000 migrant workers, mostly from Indonesia, the Philippines and Vietnam, who mainly work as industrial laborers, marine workers and household caregivers. Further progress on migrant worker rights included an explicit prohibition on laying off pregnant foreign workers, increased pressure on employers exploiting migrant workers and attempts to ease administrative procedures on migrant workers, such as lifting the necessity to leave the country to renew a visa every three years. Nonetheless, monitoring and enforcing the Labor Standards Law, which covers blue-collar migrant workers, remains problematic, while migrant workers have few official channels to express their opinions. Taiwan continues to adhere to the death penalty in the face of domestic and international protests, with the government regularly citing opinion surveys to prove that a large majority of the population supports capital punishment for serious crimes.
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.

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 18 parties participated in the 2016 general elections, the party system is dominated by two large parties, the DPP and the KMT, and their respective party alliances. The DPP-led “pan-green alliance” includes the Taiwan Solidarity Union (TSU), while the KMT-led “pan-blue alliance” includes the People’s First Party (PFP) and the Non-Partisan Solidarity Union (NPSU). In the Ninth Legislative Yuan (2016–2020), the two dominant parties accounted for 103 out of the 113 members of parliament (91% of all seats). The DPP held 68 seats and the KMT held 35 seats. Party system volatility is also relatively low, but Taiwan’s political system is sufficiently permeable to allow new political parties to enter. The 2016 legislative elections saw not only the TSU dropping out of parliament, but also the emergence of the newly founded New Power Party (NPP), which had developed out of the 2014 Sunflower Student Movement and won five parliamentary seats based on an unaligned, “third force” platform, despite ideological similarity to the DPP’s agenda. Political polarization over Taiwan’s
national identity has significantly declined whereas the camps’ diverging stances on Taiwan’s China policy have solidified. At the same time, an increasing proportion of the population considers themselves independent and not aligned to one of the big parties. Increasingly, Taiwan’s sophisticated electorate casts votes on the basis of 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 groups, 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 can 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 reinvigorated the somewhat calcified political landscape, and has put a range of social justice and civil rights issues on the political agenda, including judicial reform, LGBT rights, aboriginal land rights and the abolition of the death penalty.

Voter turnout in the 2016 general elections was the lowest since the transition to democracy, with only 66.3% of the voting population participating in the elections. The 2018 combined local elections and national referenda similarly only drew a turnout of 67%. In line with the strengthening of alternative forms of political participation and communication through social media and civic activism, this reflects continuing disillusionment with the established political institutions. This is echoed in the relatively low levels of trust in government institutions. According to the latest available data for Taiwan from the Asian Barometer Survey (2016), only 25% of respondents expressed trust in the presidency and the national government, respectively, with 70% distrusting these institutions. Trust in the representative organs is even lower, with only 12% and 17% trusting political parties and the legislature, respectively. At the same time, the majority of Taiwanese express strong consent in the principle of democracy: while only 47% would agree that democracy is preferable under all circumstances, 88% hold that democracy is the best kind of government despite its problems, 75% reject authoritarian alternatives, and 64% are satisfied overall with the way democracy works in Taiwan.
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. Based on the latest available 2016 Asian Barometer Survey data for Taiwan, interpersonal trust is fairly high. While 54% express the opinion that one has to be “very careful in dealing with people,” 64% agree that most people are trustworthy and only 20% think most people would try to take advantage of others if they had a chance.

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 by international comparison and stands at 1.35% of total population and 1.65% of households, with a relative poverty rate of 7.15% according to 2017 data. Recent years have seen an energetic domestic debate on rising social inequality in Taiwan caused by low economic growth, stagnant wages and the shrinking share of Taiwan’s GDP. Income distribution is relatively equal, however, and the Gini coefficient for Taiwan has been stable around 0.34 since 2010. According to the most recent data available (of 2017), Taiwan is considered a country with a very high human development, scoring 0.907 and ranking 21st globally in the Human Development Index. Moreover, Taiwan has a relatively low level of gender inequality. In the Gender Inequality Index, Taiwan scored 0.056, and ranked first in Asia and eighth worldwide. The most socially excluded group in Taiwan is the 700,000 foreign blue-collar workers employed as household caregivers, factory workers and in the fishing industry. This group suffers from low salaries and social discrimination. A major problem is their continuing dependence on private brokerage agencies, which take huge commissions and depress workers’ salaries. This results in many migrant workers leaving their commissioned jobs very quickly to find better paid illegal work, which further increases their vulnerability to exploitation. Migrant workers enjoy considerable support from active civil society groups and social organizations, and the DPP government has taken steps to improve their legal and socioeconomic position, including strengthening protections for pregnant workers, increasing pressure on exploitative employers, and simplifying burdensome administrative procedures (e.g., removing the necessity to leave the country in order to renew a visa every three years).
<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>GDP</td>
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<td>Unemployment</td>
<td>%</td>
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<td>3.9</td>
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<td>Foreign direct investment</td>
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<td>Export growth</td>
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<tr>
<td>Import growth</td>
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<td>Current account balance</td>
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<td>Public debt</td>
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<td>External debt</td>
<td>$ M</td>
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<td>Total debt service</td>
<td>$ M</td>
<td>4540.0</td>
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<td>Net lending/borrowing</td>
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<td>Tax revenue</td>
<td>% of GDP</td>
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<td>Government consumption</td>
<td>% of GDP</td>
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<td>Public education spending</td>
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<td>-</td>
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<td>Public health spending</td>
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<td>R&amp;D expenditure</td>
<td>% of GDP</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>1.9</td>
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Sources (as of December 2019): 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 with transparent, clearly defined and state-guaranteed rules for ensuring fair competition and largely equal opportunities for all market participants. A 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 the ease of doing business, economic freedom and economic competitiveness. According to the Economic Freedom of the World Annual Report 2018, Taiwan ranked 12th in the world with a score of 7.89 out of 10 (based on 2016 figures), and third in Asia behind Hong Kong and Singapore. It did particularly well in the categories of sound money and regulations. According to the Global Competitiveness Report 2017 to 2018, Taiwan ranked 15 out of 137 countries. In the 2018 Index of Economic Freedom, Taiwan ranked 13th worldwide and fifth out of 43 countries in the Asia-Pacific region, with very high scores for the integrity of the legal system and well-specified property rights, sensible regulation, and few restrictions on business freedoms, monetary transactions and trade. Starting a business in Taiwan takes 10 days and three procedures with a cost of 1.9% of GNI per capita, according to the World Bank’s 2019 Doing Business report. For starting a business, Taiwan scored 94.93 out of 100 and ranked 20 out of 190 countries. The main limitation 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%. Plans to reduce the barriers of Chinese investment have stalled since 2014.

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 or predatory price fixing. The independent Fair Trade Commission (TFTC), a member of the International Competition Network, supervises business practices to ensure fair competition. In January 2017, the Legislative Yuan passed an amendment to the Electricity Act, which effectively ended the monopoly enjoyed by the state-run Taiwan Power Company in the electricity market by allowing “green” energy producers to sell directly to customers.

Promoting fair competition within domestic industries, the TFTC selects key industries that are closely intertwined with Taiwan’s economic development and the population’s daily lives for closer supervision and administration. In 2018, the TFTC paid greater attention to the cable TV market structure, the business practices of franchisers, the natural gas market and internet advertising.
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 plays to 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 have gone to the Chinese mainland (including Hong Kong) over the last two decades, resulting in a high trade dependency on China, which has worried critical observers for quite some time. The ratification of follow-up agreements to the cross-strait Economic Cooperation Framework Agreement to further liberalize trade in services and goods across Taiwan Strait has halted since 2014. In 2016, the DPP government introduced the New Southbound Policy to diversify Taiwan’s trade relationships by deepening regional integration, and increasing economic, trade and tourist links with its southern neighbors (particularly the ASEAN nations).

During the review period, Taiwan’s banking system has been stable. According to official data, at the end of 2018, Taiwan was home to 5,594 financial institutions, with a large majority of 3,403 branch offices belonging to 37 domestic commercial banks, which accounted for 78.4% of total deposits and 89.3% of total loans. In addition, 29 foreign (including mainland Chinese) banks were responsible for 1.5% of total deposits and 4.9% of loans, and 23 credit cooperatives (which mainly service regional customers) accounted for 1.6% of total deposits and a market share of loans of 1.7%. 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 market is 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. Also, the system’s low use of cross-border funding makes it less vulnerable to contagion risks during periods of turbulences in global capital markets like the 2008/9 global financial crisis. The official non-performing loans (NPL) ratio of Taiwanese domestic banks was 0.28% in 2016 and 0.26% in November 2017. The capital adequacy ratio of Taiwan’s domestic banks stood at 13.8% in mid-2018, well above the statutory Basel III minimum of 10.5%. A 2018 stress test of 36 domestic banks under the auspices of the FSC tested the resilience of Taiwan’s banking industry in the face of increased credit risks, resulting from an expected macroeconomic downturn and volatility of market prices. Its results again diagnosed stable risk-taking capabilities even in the face of adverse economic and financial developments.
On the negative side, the banking sector remains dominated by fully and partially state-owned banks. For example, Taiwan’s state-owned Chunghwa Post, which runs the country’s largest savings service, has 1,298 local branches and accounts for 14.2% of total deposits. The banking system is highly fragmented and has the lowest banking concentration ratio of 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” corporations, it has led to fierce competition that drives down profitability close to unsustainable levels.

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 and 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 Taiwan’s consumer price index (CPI) at 0.6% in 2017 and almost stagnant in 2018. Inflation stood at -0.05%, mainly due to lower prices for produce and telecommunication fees (compared to 0.3% in 2015 and 1.4% in 2016). The Taiwan New Dollar (TWD) has slightly appreciated against the U.S. dollar, with average exchange rates for $1 of TWD 30.44 in 2017 and TWD 30.16 in 2018, compared to TWD 31.90 in 2015 and TWD 32.32 in 2016.

Taiwan’s outstanding total public debt (measuring non-self-redeeming debts across all levels of government) was projected to be 35.3% in November 2018, which is comparatively low by global and regional standards. In addition, Taiwan has a long track record of prudent fiscal policy making and resolute debt control as part of Taiwan’s overall economic policy, suggesting effective crisis management and macroeconomic stability. Taiwan’s net borrowing has been around 2% of the GDP over the last few years, and its foreign exchange reserves have reached a new record high of $461.8 billion in 2018.

9 | Private Property

Taiwan’s property rights regime is well established and enforced by an independent judiciary. 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 member of the World Intellectual Property Organization (WIPO), it adheres to the Agreement
on Trade-related Aspects of Intellectual Property Rights (TRIPS), established an Intellectual Property Court in 2008 and, since 2009, has no longer been listed on the U.S. Special 301 Watch List of countries with inadequate intellectual property laws.

Taiwan’s economy is mainly based on small- and medium-sized private companies (some 1.44 million, around 98% of all companies according to 2017 figures), which are adequately protected by the state through a functioning legal framework. The state continues to be directly involved in a number of “strategic” economic areas (shipbuilding, petroleum, steel, sugar, tobacco and liquor, banking, insurance and railway transport), in some cases holding the majority of shares. Basic utilities (conventional power production, water supply, and postal services) remain monopolized by state-owned enterprises (SOEs), even though the 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 China Petroleum Corporation (CPC) and Taiwan Tobacco and Liquor Co. continue to control large market shares even in liberalized markets. Except for the state monopolies, SOEs compete directly with private companies. The eventual privatization of all residual SOEs has been expected for some time, but not much progress has been made in this regard during the review period.

10 | Welfare Regime

With social welfare expenditures accounting for 23.9% of the government budget in 2017, making 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 for 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 has introduced a legal framework that addresses the long-term care requirements of Taiwan’s rapidly aging population.

Following the January 2013 reform of the NHI aimed at increasing revenues and balancing the structural deficits that had plagued the system since its inception, the government 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 (TWD 20 or $0.60 per standard pack of cigarettes) and 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 2010, revenues have consistently been larger than expenditures, such that by the end of 2018 a solid reserve of TWD $214 billion had been accumulated.

The pension system for Taiwan’s 450,000 retired public servants and military personnel has long been identified as a potential challenge for the sustainability of the country’s social safety net, with numerous pension sub-systems likely to run out of money within the next decade if no adjustments are made. To address this issue, the Tsai government introduced in June 2018 a number of highly unpopular reform bills aiming to consolidate these systems and ensure their liquidity for the foreseeable future.

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 installed 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 for 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.

Taiwan ranked first in Asia and eighth in the world, according to the U.N. Gender Inequality Index (GII), with a calculated index value of 0.056 (a score of 1 meaning extreme gender inequality). This is mirrored in the strong role women play in education and the economy. In 2017, the share of female teachers was 67.32%, with 36.0% of college and university teachers being women. In 2014, female university students for the first time outnumbered their male counterparts. In 2017, the female enrollment rate in tertiary education institutions was 89.24%, compared to 80.1% of the respective male cohort. Similarly, during the review period, women’s labor market participation rates continued to slowly increase. In 2017, the share of women aged 15 to 64 in the workforce was 60.3%, up from 59.6% in 2016. The gender pay gap remains the same as in the previous review period, with women earning on average 16% less than men. Nonetheless, Taiwan’s Gender Gap index, which measures gender gaps in economic participation, educational attainment, political
representation and health outcomes, was 0.73 in 2017, which would rank Taiwan 33rd globally (up from 43rd in the 2015 ranking).

Women also play a significant role in Taiwanese politics. President Tsai is Taiwan’s first female head-of-state, and while in early 2018 only six out of 31 (19.4%) cabinet ministers and heads of government agencies were women, at least one-third of a cabinet committee’s members are required to be women. The Ninth Legislative Yuan (2016–2020) includes a record number of 43 female lawmakers (38%), and women make up more than half of the members of the Control Yuan.

The biggest problem concerning gender equality is related to deeply entrenched cultural traditions, which also has had an impact on the legal system. Under Taiwan’s notorious adultery law, sexual infidelity remains a criminal offense and “unfaithful” women tend to receive harsher treatment than men. There is also 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. As in other parts of East Asia, abortion of female fetuses is reported to be practiced in Taiwan, such that sex ratios at birth continue to be around 93 girls per 100 boys in 2017.

Taiwan’s indigenous peoples, who account for about 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.

The most socially excluded group in Taiwan is the 700,000 foreign blue-collar worker community employed as household caregivers, factory workers and in the fishing industry. This group suffers from low salaries and social discrimination and is vulnerable to exploitation. The DPP government has taken steps to improve their legal and socioeconomic position, including strengthening protections for pregnant workers, increasing pressure on exploitative employers and simplifying administrative procedures for this group (e.g., removing the necessity to leave the country in order to renew a visa every three years).
11 | Economic Performance

During the review period, Taiwan’s economy has performed strongly, having recovered from the slump in economic development in the previous years. Exports recovered from the crash during the previous review period with growth of 13.2% in 2017 and project growth of 5.9% in 2018, compared to growth of -10.9% in 2015 and -1.8% in 2016. Import growth also recovered from -2.8% in 2016 to 12.4% in 2017 and 10.5% in 2018. Throughout the review period, Taiwan maintained solid trade surpluses, $58 billion in 2017 and $49.4 billion in 2018. This was also reflected in the overall growth of the economy. Following a sluggish growth rate of 1.5% in 2016, Taiwan’s economy grew robustly with real GDP growing 3.1% in 2017 and a projected 2.7% in 2018.

Real GDP per capita rose from $22,592 in 2016 to $24,408 in 2017 and is projected to have reached $25,048 in 2018. GDP per capita in PPP terms rose to $50,294 in 2017, up from $48,128 in 2016.

Inflation as measured by the consumer price index (CPI) was low during the review period. The consumer price index (CPI) stood at 0.6% in 2017, with a slight deflationary trend in 2018 to -0.05%.

Unemployment continued to decline throughout the review period with a labor force participation rate of 59.1% in late 2018, up from 58.8% in 2016. Unemployment rates also continued to decrease, falling to 3.76% in 2017 and 3.71% in late 2018 from 3.92% in 2016. Compared to other advanced industrial economies, the unemployment rate is relatively low, although it is still considered to be elevated by Taiwanese standards. Somewhat concerning is the relatively high share of young people among the unemployed, with a jobless rate of around 12% among Taiwanese aged 16 to 24 in 2018.

Tax revenues totaled 12.86% of the GDP in 2017. In 2017, Taiwan’s current account balance showed a solid surplus of $80.11 billion, up from $71.91 billion in 2016. Gross capital formation dropped from 2.4% in 2016 to 0.1% in 2017, but is projected to have recovered to 3.6% in 2018.
12 | Sustainability

Environmental awareness has been on the rise in Taiwan since the 1980s, mainly because of a strong social movement that pushed the government to make environmental protection a major concern 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 quite 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 coping with international environmental standards.

Taiwan is heavily dependent on fossil fuels for energy sources, with oil, coal and natural gas accounting for 93.7% of all energy supplies in 2017 (up from 90.8% in 2015), and nuclear power and renewable energy 4.4% and 1.5%, 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 part 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 sets a target of reducing Taiwan’s greenhouse gas emissions to less than half its 2005 level by the 2050. The goal of reducing carbon dioxide emissions is complicated by the Tsai government’s May 2016 decision to phase out Taiwan’s three nuclear power plants by 2025, which has been a major goal of Taiwan’s vocal environmental movement. To offset the reduction in power supply, the administration has proposed expanding Taiwan’s coal-fired power plants, which triggered widespread protests by environmental groups. At the time of writing, no solution has been found for securing Taiwan’s power supply once nuclear power production has been phased out.

Taiwan ranked 23 out of 180 countries in the 2018 Environmental Performance Index (up from 60 in 2016). Despite the impressive improvement in rank, the index value for Taiwan actually decreased slightly from 74.88 in 2016 to 72.84. Yet, the country performs considerably better than most countries in the region and performs especially well in the areas of air quality, ecosystem vitality, climate protection 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. The literacy rate stood at 98.8% at the end of 2017. In the same year, the gross enrollment rate of all levels of education stood at 93.9% and for post-secondary education at 84.5%, which is very high compared to international figures. Since 2014, tuition-free education has been extended from 9 to 12 school years, with the first nine years being compulsory (six years of elementary school and three years of secondary school). As of 2017, almost all junior high school graduates continued on to further studies, including academic senior high school or vocational training in technical high schools, and 33.3% of Taiwan’s population aged 15 and above had a college or university degree. Overall, Taiwan ranked 17th worldwide in higher education and training, according to the 2017 to 2018 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 pre-school educators were formalized and school curricula has undergone continuous reform to keep 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, particularly in mathematics and science.

Total expenditures for education stood at 4.92% of the GNI (with 3.7% public expenditures and 1.22% private) in 2017, which is not particularly high in international comparison, given the fact that Taiwan is an industrialized nation in which a good education is of preeminent significance. However, with 20.8% of all government expenditures in 2017, education is the government’s second largest budgetary item.

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 has been upgraded to the Ministry of Science and Technology (MOST). The Taiwanese government 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.

R&D spending is very high in comparison to international standards, with overall expenditures at 3.16% of the GDP in 2016, totaling TWD 541.36 billion, out of which 21.3% of R&D expenditures were funded by the government and 78.7% came from private investment. In the 2017 to 2018 World Economic Forum’s Global Competitiveness Report of 137 countries, Taiwan ranked 10th in company spending on R&D, 16th in university-industry collaboration in R&D, and 22nd in capacity for innovation, leaving the country ranked 11th for overall innovation.
Governance

I. Level of Difficulty

Taiwan enjoys 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 ethno-religious conflicts; and an unchallenged state monopoly on the use of force. Social movements and social interest organizations of all sorts 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-thirds 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 the country vulnerable to external shocks. 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 the latter’s self-determined management of international relations. During the review period, China has significantly ramped up its pressure on Taiwan, further limiting the country’s political and economic options.

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 all sorts 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 Student Movement of 2014 not only gave Taiwan’s civil society a new push and political relevance, but also proved the political system’s ability and flexibility to react to the voiced grievances by transferring them into orderly channels of political competition through the existing party system. The emergence of the New Power Party as a self-declared alternative “third force” to the two dominant party camps has provided additional capacity to address civil society concerns.
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 play political parties against each other.

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. Decision-makers can draw on a solid institutional framework, and a wide range of experts and professional advisers, both within government agencies and in civil society, to support the prioritization and organization of policy measures. In practice, however, the government’s ability to implement carefully set strategic priorities has been limited due to China’s de facto veto power on 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 also 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 current review period in which the Tsai government, which assumed office in May 2016, held a super-majority of 60% of parliamentary seats and (at least) initially, the president’s approval ratings were very high. Under excellent conditions for coherent policies and strategic prioritization, the Tsai government has made progress on several core party goals, such as strengthening alternative energy sources, judicial reform and consolidating Taiwan’s welfare state. In June 2018, for instance, the government was able to push through a highly contentious pension reform bill that sparked considerable opposition especially among senior military veterans, whose
pensions are scheduled to be cut by more than 20% over the next decade. However, the ability to prioritize has not prevented the government from making serious policy mistakes. For example, an amendment to the Labor Standards Act in 2016, which introduced a “one fixed day off and one flexible rest day” provision, meant that some employees had to work 11 days in a row without a rest day in between. While originally intended to ensure a five-day workweek, the regulation was criticized by employers and employees alike and had to be amended again in 2017. It is widely believed among observers that unpopular reforms and policy blunders have contributed significantly to the rapidly declining satisfaction with Tsai’s presidency (which stood at 24.3% at the end of 2018) and the disastrous showing of the DPP in the November 2018 elections.

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 policy implementation have been excellent with the DPP controlling the presidency and parliament, although this has not prevented unintended negative consequences from poorly developed policies (e.g., the Labor Standards Act).

Generally speaking, political learning in Taiwan takes place in economic and social policy-making, 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 also 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 its leader, Tsai Ing-wen, reformulated their stance on cross-Strait policy previous to the 2015/16 elections. During the current review period, the Tsai government tried to steer a middle road between the party’s core pro-independence constituency, and the wider electorate who demand a more pragmatic and less ideological approach to the country’s relationship toward the mainland. In terms of domestic politics, the Tsai government has proven to be willing and able to learn from policy mistakes, as evidenced by its March 2018 reform of a 2017 amendment to the Labor Standards Act, following calls from business circles for greater flexibility.
15 | Resource Efficiency

Taiwan has a postwar history of efficient bureaucratic policy-making, 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 special constitutional organ, the Examination Yuan is responsible for the education, recruitment and evaluation of the country’s public officials. Petty corruption is not common and high-profile cases of corruption in Taiwan’s bureaucratic apparatus are rare and mostly involve politically nominated public officials, not professional civil servants.

Taiwan’s public sector makes efficient use of taxpayer’s money. With 14.1% of the GDP in 2017, 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 35.3% of the GDP in November 2018 – well below the 40.6% debt ceiling mandated the Public Debt Act. Effective auditing is ensured through the Ministry of Audit under the Control Yuan, an independent policy body that is 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) publishes 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 17 out of 62 countries in the 2018 World Competitiveness Yearbook and 15 out of 137 countries in the Global Competitiveness Index, which both measure, among other things, government efficiency. After many years of worries concerning the various national pension fund schemes for Taiwan’s about 450,000 retired civil servants, which were forecast to go bankrupt within the next decade, the Tsai government introduced highly unpopular measures to consolidate pension systems in June 2018.

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 decide on 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 president and the parliamentary majority are controlled by the same party, but weakens the chances for coordination in times of divided government. With the DPP controlling both the presidency and holding a super-majority in the Legislative Yuan, political coordination has been rather smooth during the review period. Overall, the government has been able to pursue its political aims and realize its campaign promises, even if some reforms have had unintended consequences that hurt the DPP in the 2018 elections.

Taiwan possesses a well-developed framework of strict and stringently enforced anti-corruption regulations that target both 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 took effect in August 2008 that 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 has 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 military generals, as well as corruption involving elections. Building off 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 287 cases of public corruption involving 703 individuals in 2017, and 221 cases involving 528 individuals in 2018 (until November). The Control Yuan, a specific constitutional body that supervises government and public officials, partakes in the effort to curb political corruption. Its Ministry of Audit is responsible for ensuring that public resources are spent efficiently. Furthermore, 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.

Local vote-buying remains a serious problem in Taiwan but is considered by both politicians and voters as an inherent part of local political culture rather than political corruption. In the 2016 general elections, over 500 individual cases of vote-buying were reported. Similarly, in the aftermath of the November 2018 local elections, a number of individuals have been arrested for electoral fraud. Nevertheless, offenders
of regulations related to vote-buying and political donations 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.

Compared to political corruption, commercial corruption is less stringently regulated. Big business and politics remain closely intertwined, and (especially in public procurement) cases involving bribery of government officials and diversion of public money to private businesses have been reported. After the November 2018 elections, dozens of accusations that Chinese government organizations had funded Taiwanese candidates opposing Tsai and the DPP through Taiwanese businesses operating on the mainland were investigated. Despite repeated calls for the Legislative Yuan to pass the Commercial Anti-Bribery Act to address bribery in the private sector, no progress was 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 on Taiwan’s identity as a democratic state with a market economy.

All major political actors firmly agree on maintaining and strengthening Taiwan’s market-based democracy. There are policy differences between the main political parties, DPP and KMT, regarding a variety of policy fields (economic policy, labor policy, social and welfare policy etc.) but this does not undermine the overall firm consensus on Taiwan’s market economy.

There are no anti-democratic veto actors in Taiwan.
The most serious domestic cleavage between advocates of Taiwanese independence and a political arrangement with China (including unification) is reflected in the ongoing division of the party system into two rival (“pan-blue” and “pan-green”) camps. In recent years, this ideological confrontation has increasingly turned into a conflict on the scope, context and strategic timing of pragmatic cross-strait policies and economic integration. During the review period, no serious progress was made to depoliticize the cleavage, which is the only issue on which the two political party camps differ substantially. Little changed in the severity of political competition after the DPP’s landslide electoral victory in 2016, even though the run-up to the 2018 local elections was dominated by pragmatic issues, such as economic development, agricultural policies and the progress of the DPP’s political reform agenda.

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 to civil society, 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 Student Movement, most notably the New Power Party (NPP), which won five out of 113 parliamentary seats in the 2016 parliamentary elections. 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 or educational reform. The Ministry of Justice has a long tradition of cooperating closely with civil society organizations, and civil society plays an important role in the process of judicial reforms initiated by the new DPP government in 2016. At the same time, ideological polarization continues to divide many movements and groups, thus making it difficult 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.

While the conflict between mainlanders and the 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, reconciliation and transitional justice have received renewed interest during the review period. Nonetheless, for years academics and civil society activists have advocated for transitional justice, and the establishment of a truth commission to clarify the question of political responsibility, and support those who were victims of the “White Terror” to tell their stories and receive compensation from the government. While the KMT has refused to discuss the dark side of its authoritarian past, especially with respect to its huge party assets accumulated during the martial law period, the DPP government has made good on President Tsai’s 2015/16 presidential election campaign promises. In addition to passing the 2016 Act Governing the Handling of
Ill-gotten Properties by Political Parties and Their Affiliate Organizations, which would examine KMT’s financial assets, in December 2017 the Act on Promoting Transitional Justice was passed and the government-level Transitional Justice Commission (TJC) was established. The commission’s main responsibility is to investigate crimes perpetrated under the KMT’s authoritarian rule between 1945 and 1992, facilitate greater access to martial law-era archives and remove “authoritarian symbols” from public spaces. From the beginning, however, these steps were branded as political moves to weaken the KMT. This sentiment was further fueled by a political scandal in September 2018, in which the TJC chairman was alleged to have targeted a KMT mayoral candidate in the run-up to the 2018 local elections for political reasons. In response, KMT lawmakers have suggested that the TJC should be abolished. The DPP has rejected this call, but proposed a personnel reshuffle and the promotion of a law to establish a formal inspection mechanism to investigate public officials’ roles under the authoritarian regime. In another aspect of reconciliation, following President Tsai’s public apology in 2016 for centuries of maltreatment experienced by Taiwan’s 16 indigenous tribes, in May 2017 the Legislative Yuan passed the Indigenous Languages Development Act, which recognizes the tribes’ languages as official languages of Taiwan.

17 | International Cooperation

Taiwan does not receive international development assistance, but makes sensible use of international cooperation to further its political and economic goals. Taiwan’s integration into the international community, however, 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 known since the days of the “Taiwan miracle.” Within the international community, the country has earned a reputation for its credibility and reliability in implementing necessary market reforms. Since its entry in 2002, Taiwan has smoothly integrated into the WTO framework to facilitate global trade. It implements WTO rules well. However, efforts by the previous KMT government to enlarge Taiwan’s “international space” through its conciliatory cross-Strait policies have mostly failed to entice Beijing to change its stance. Moreover, since the DPP government has taken office, China has ramped up pressure on its partner countries to cancel diplomatic relations with Taipei. The current review period saw the termination of ties with Panama (2017), the Dominican Republic and El Salvador (2018). As of January 2019, only 16 countries, mainly Pacific islands, small Caribbean and Central America nations and the Holy See maintain official diplomatic relations with Taiwan.
Since China prevents Taiwan’s entry into most international and regional organizations and bodies that 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 expertise and financial might, Taiwan enjoys a good reputation as political partner and engaged donor of development aid and humanitarian assistance. In recent years, it has largely abandoned “dollar diplomacy” as a means to trade financial support for international recognition, both for reasons of low effectiveness, severe public criticism and, most notably, with the goal of improving cross-strait relations.

Tensions across the Taiwan Strait have risen since the DPP came to power in 2016, with China reinforcing its attempts to limit Taiwan’s “international space,” despite President Tsai’s comparatively conservative approach to cross-Strait policy.

Within the limits posed by Beijing’s refusal of Taiwan’s participation in international political organizations, Taiwan is a strong advocate of and reliable participant in initiatives advancing regional integration and cooperation. The country cooperates actively and successfully in regional and international organizations like 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 several neighboring southeast Asian countries over control of the uninhabited but resource-rich (fish, petroleum, natural gas) Spratly and Paracel archipelagos in the South China Sea. Attempts by the previous administration to mirror previous successes in a similar conflict with Japan, by shifting the focus from questions of territorial sovereignty to jointly developing and sharing resources, has not borne fruit. As of late 2018, the Tsai government’s main international initiative has been the New Southbound Policy, which aims to reduce Taiwan’s reliance on the Chinese market and foster greater cooperation with Taiwan’s neighbors in the Asia-Pacific region, mainly with ASEAN nations. Its main instruments are the promotion of greater economic collaboration, especially in the tourism, technology and private business sectors; the two-way exchange of qualified workers; and stronger Taiwan’s bilateral and multilateral regional integration.

The main obstacle to closer international cooperation continues to be Taiwan’s relationship with mainland China, with China continuing to block Taiwan’s inclusion in regional free trade regimes, most notably the ASEAN Free Trade Zone and the projected Regional Comprehensive Economic Partnership regime. Taiwan’s further economic and societal cooperation with the People’s Republic of China has continued to deteriorate since President Tsai has taken office, with Beijing accusing President Tsai of promoting Taiwan’s de jure independence.
Strategic Outlook

In terms of domestic political developments, the next two years will be dominated by the aftermath of the 2018 municipal elections and the run-up to the 2020 presidential and legislative elections. A weakened DPP has to decide whether President Tsai should run for a second term in office despite being blamed by many for the party’s humiliating defeat due to poor leadership, personnel choices and policy decisions. Depending on how this intraparty process plays out, Tsai’s position could be further weakened and her ability to run the government effectively curtailed, despite the solid DPP-majority in the legislature. If the KMT wants to win the presidency in 2020, on the other hand, the party has to consolidate the gains it made in the 2018 elections, especially among rural voters in southern and western Taiwan, who favor a pragmatic economic policy. At the same time, the KMT must avoid being perceived by voters as too close to Beijing and consequently as a disloyal opposition, which would further undermine public trust in the party and its political representatives. Both big parties, then, will have to continue to walk the tightrope between the vocal demands of their relatively broad constituencies. The three main constituencies include radical independence-activists, including former presidents Lee Teng-hui and Chen Shui-bian, who proposed a national referendum on Taiwan’s de jure independence be held in 2019; those who favor the maintenance of the status quo; and those who advocate closer ties to the mainland.

Cross-Strait relations will continue to dominate Taiwan’s political, social and economic development over the next years. China and Taiwan’s key objectives are ultimately incompatible. Whereas China seeks unification under the “one country, two systems” model, Taiwan wants to maintain its sovereignty and de facto independence. This fundamental contradiction makes the Taiwan Strait a perennial hotspot in the regional security architecture, and one of the most likely locales for a power struggle between China and the United States. Against this background, it is hard to predict where relations between Taiwan and China will lead, and much will depend on factors that Taiwan’s decision-makers cannot control, especially economic and political developments in the People’s Republic of China.

Concerning the People’s Republic of China, the “Taiwan question” will continue to be a matter of national relevance, and will become more prevalent the more the government in Beijing is pressured into adopting increasingly aggressive nationalist policies due to intra-elite struggles or a serious economic cooldown. However, even below the threshold of Beijing demanding concrete steps toward unification, China is likely to continue to use numerous channels to maintain political and economic pressure on Taiwan over the next years. This pressure might include further reducing the number of Chinese tourists allowed to visit Taiwan, dividing Taiwan’s political camps by continuing to refuse to work with the DPP and instead courting the KMT, ramping up social media campaigns and potentially meddling in Taiwan’s national elections scheduled for 2020, placing greater pressure on Taiwan’s few remaining political allies, and increasing provocative military exercises in the Taiwan Strait. Taiwan’s long-standing 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. While U.S. President Trump’s harsh rhetoric against China and his administration’s generally Taiwan-friendly policies in the first two years of his presidency have been well-received in Taiwan, much will depend on the U.S. administration’s stability and the run-up to the presidential elections in Washington in 2020. The greatest danger for Taiwan in this regard would be U.S. support for Taiwan becoming a bargaining chip for the Trump administration to conclude a “deal” with Beijing.

In light of these external contingencies and its relatively narrow latitude for unilateral action, the Taiwanese government is probably best advised to continue its current course of treading the middle line, while attempting to diversify its economic ties and strengthen its political connections with neighboring countries that also feel the weight of an increasingly assertive China. The New Southbound Policy is a sensible step in this direction. Greater diversification of markets and regional integration is likely to support Taiwan’s economic development, which can draw on the country’s well-established economic institutions and infrastructure and promote robust macroeconomic growth and stability. One crucial question that will need to be dealt with in the near future will be how to secure Taiwan’s energy supply after phasing out nuclear energy in 2025 without becoming more reliant on imported fossil fuels and compromising the country’s climate goals.