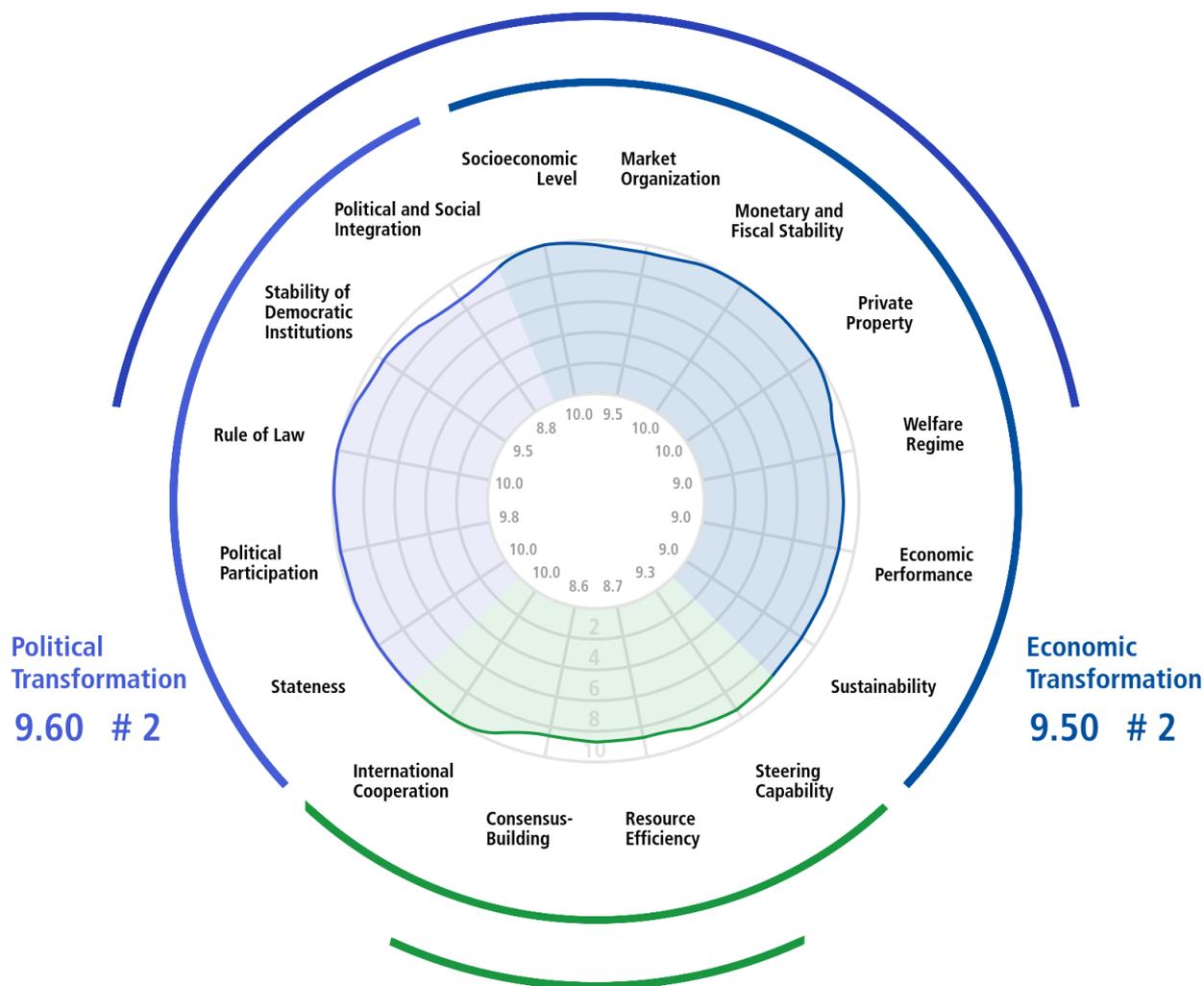


Taiwan

Status Index

9.55 # 1

on 1-10 scale out of 137



Political Transformation
9.60 # 2

Economic Transformation
9.50 # 2

Governance Index

7.49 # 1

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. 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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Key Indicators

Population	M	23.4	HDI	0.934	GDP p.c., PPP \$	80091
Pop. growth ¹	% p.a.	0.2	HDI rank of 193	21	Gini Index	-
Life expectancy	years	80.2	UN Education Index	-	Poverty ³	% -
Urban population	%	61.5	Gender inequality ²	-	Aid per capita	\$ -

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Throughout the review period, Taiwan maintained a high degree of stateness, with meaningful elections, an absence of undemocratic veto actors, stable democratic institutions, a vibrant civil society, and strong guarantees of its citizens' political rights and civil liberties. Taiwan's government successfully steered a course of stability and economic resilience in an increasingly difficult international environment characterized by wars; economic insecurity; and further increases in political, economic and military pressure from the People's Republic of China (PRC).

Politically, the first half of the review period was marked by the Democratic Progressive Party (DPP) government led by President Tsai Ing-wen pursuing its domestic policy agenda in the run-up to the 2024 presidential and parliamentary elections. After two terms in office, incumbent President Tsai was ineligible for re-election, and the DPP candidate, William Lai, ran on a platform of continuity in most relevant policy areas, especially concerning cross-strait relations. His challengers in the presidential race were Hou Yu-ih of the Kuomintang (KMT) and Ko Wen-je of the Taiwan People's Party (TPP). With Hou garnering only 33.5% and Ko 26.5% of the vote, Lai secured an unprecedented third consecutive victory for the DPP with 40.1% of the vote. At the same time, the DPP lost its parliamentary majority, retaining 51 of the 113 seats in the unicameral Legislative Yuan, while the KMT secured 52. The TPP won eight seats, solidifying its role as the only viable alternative to the two large parties. In Taiwan's semi-presidential system, such divided government can lead to policy gridlock, hampering the administration's ability to implement its agenda. For instance, in January 2025, the opposition-controlled Legislative Yuan approved unprecedented budget cuts totaling 6.6% of the proposed budget (approximately \$6.34 billion), significantly reducing allocations for government funding in the defense and technology sectors. Another example is the legislative reforms passed by KMT and TPP legislators in May 2024, which granted lawmakers increased powers to summon government officials and demand documents, with provisions to penalize non-compliance. In response, the "Bluebird Movement"

emerged, with tens of thousands of citizens protesting what they perceived as legislative overreach threatening Taiwan's democratic checks and balances. While the controversial bills were enacted despite the protests, Taiwan's Constitutional Court annulled most provisions, ruling them unconstitutional in October 2024.

Cross-strait relations deteriorated further during the review period, with Beijing having refused to engage in dialogue with Taiwan's DPP-led government since 2016 and engaging in escalating military, legal and economic pressure. By early 2025, Chinese military ships, aircraft and drones were operating around Taiwan and intruding into Taiwanese territory almost daily, with the People's Liberation Army (PLA) conducting regular drills and engaging in military posturing in the Taiwan Strait, including a set of large-scale exercises after Lai's May 2024 inauguration. In 2024, China also introduced trials in absentia and the death penalty for "diehard 'Taiwan independence' separatists" while further increasing economic coercion, banning Taiwanese agricultural imports, pressuring diplomatic allies, and employing cyberattacks and cognitive warfare. Despite these efforts, levels of support among Taiwanese for unification with the mainland remain low, with most Taiwanese favoring keeping the status quo. Within these constraints, Taiwan has strengthened ties with key partners, maintaining robust parliamentary diplomacy and deepening cooperation with the United States, regional allies and some European countries.

Taiwan's highly developed market economy proved to be resilient and a strong performer despite global disruptions caused by Russia's war against Ukraine and economic downturns in mainland China. While growth was sluggish at 1.1% in 2023, it rebounded strongly in 2024 with a projected 4.3% increase. Inflation remained relatively low and stable compared to global trends, with the consumer price index (CPI) rising by 2.5% in 2023 and a projected 2.2% in 2024. While exports declined by 9.8% in 2023 from a record high of \$479.4 billion in 2022, they rebounded with a 9.9% increase in 2024, reaching \$475.1 billion. Taiwan consistently recorded strong trade surpluses, rising to \$80.6 billion in 2023 and a projected \$80.8 billion in 2024, up from \$51.3 billion in 2022. Unemployment remained stable throughout the review period, with the unemployment rate declining from 3.7% in 2022 to 3.5% in 2023 and 3.4% in 2024. However, youth unemployment remained a concern, with the 20 to 24 age group facing the highest rate of joblessness, at 11.6%. As in previous years, public finances were healthy, with solid tax revenues, relatively low public debt and foreign reserves reaching a new record high of \$576.7 billion in December 2024.

This strong economic performance allows Taiwan to maintain one of Asia's most comprehensive welfare systems, offering strong social protections. During the review period, this system was further enhanced through structural reforms and temporary support measures. The country also has a highly effective and competitive education system and R&D infrastructure. Throughout the review period, the island nation has further advanced its environmental policies through institutional reforms and sustainability initiatives, including the creation of the Ministry of Environment in 2023 and the passage of new climate regulations. However, its continued reliance on fossil fuels and the planned phaseout of nuclear power by 2025 complicate efforts to reach the point of net-zero emissions. Overall, this combination of political stability, economic performance and social protection makes Taiwanese relatively content with their lives, with the country ranking 31st globally and second in East Asia, after Singapore, in the 2024 World Happiness Report.

History and Characteristics of Transformation

In Taiwan, economic transformation has historically taken precedence over political change. The authoritarian leadership of Chiang Kai-shek and the Kuomintang (KMT) laid the groundwork for a stable market economy in the 1950s. During this period, the state played a significant role by regulating and protecting domestic markets and by actively intervening in economic affairs. In the four decades of authoritarian rule after the Chinese Civil War in 1949, Taiwan gradually transitioned to a social market economy and implemented basic social insurance systems.

The 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 with the legalization of new political parties in January 1991. In 1991 and 1992, respectively, Taiwan held the first free elections to the National Assembly and the Legislative Yuan, its central parliamentary bodies, marking the end of the transition process. During the 1990s, democracy matured through 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 acquired the epithet "Taiwan's father of democracy."

Successful democratic consolidation had been achieved when Chen Shui-bian, an experienced DPP politician and a staunch advocate of Taiwanese independence, unexpectedly won the March 2000 presidential election, thereby sending the KMT into opposition for the first time since 1949. The subsequent eight years were marked by severe legislative inefficiency as partisan conflict between the ruling DPP and the KMT-led opposition, which held a parliamentary majority, paralyzed the political process. Cross-strait relations further deteriorated as the new president pursued an agenda aimed at asserting Taiwanese sovereignty in the face of Beijing's "one China principle," and pushed for a referendum on a new constitution.

After years of gridlock, the KMT returned to power in 2008 with President Ma Ying-jeou and a two-thirds majority in the Legislative Yuan. The new administration immediately began cross-strait negotiations and signed numerous accords with Beijing as part of a proactive China policy. However, eight years of an overall accommodating cross-strait policy did not bring the sovereignty dispute between Taipei and Beijing any closer to resolution. By the time of the 2016 general elections, a large share 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 Taiwan's third peaceful transfer of power and the first time a woman was elected president. Drawing on her legislative majority, the president tackled a multitude of reforms, many of them highly contentious. These reforms, together with a number of government scandals, led to a drop in the president's approval ratings and the DPP's disastrous showing in the November 2018 nationwide local elections.

Nonetheless, Tsai and the DPP secured a landslide victory in the November 2020 general elections, retaining the presidency and the party's majority in the Legislative Yuan. This success can be attributed in part to a highly effective state response to the COVID-19 pandemic and consistently strong economic performance. Worsening cross-strait relations with China also played a role in the DPP's win, as China ramped up political, diplomatic and military pressure on Taiwan to unify with the mainland under Beijing's "one country, two systems" formula. In 2022, however, Tsai's approval ratings plummeted to historic lows as the island experienced large-scale domestic COVID-19 waves and their human and economic consequences. As a result of these developments and an inept electoral strategy, the DPP suffered a humiliating defeat in the November 26, 2022, nine-in-one local elections and in the failed DPP-sponsored constitutional referendum to lower the voting age from 20 to 18.

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, ROC) exercises effective power and authority over its territory, including the islands of Taiwan, Penghu, Matsu and Kinmen.

Surveys consistently show that the vast majority of Taiwan's citizens identify as only Taiwanese or as Taiwanese first, with only a fraction identifying as Chinese. Consequently, the long-lasting struggle over Taiwan's national identity has given way to public discourse over how best to manage the relationship with mainland China. Today, over four-fifths of Taiwanese support maintaining the status quo in the Taiwan Strait. This is widely seen as the best compromise with regard to protecting the country's existential security and economic interests, balancing China's militant rejection of Taiwan's formal independence with the distinct Taiwanese national identity, the population's growing identification with their state and a desire for sovereignty that has grown since the 1990s. The share of citizens supporting reunification with China declined further over the review period. Taiwan does not deny citizenship based on group identity.

In Taiwan, the state's legitimacy derives entirely from a secular constitution. Religious dogma plays no role in the legal or judicial system or the country's political institutions.

Question
Score

Monopoly on the
use of force

10



State identity

10



No interference of
religious dogmas

10



Taiwan's civilian administration is differentiated and professional, and it provides sound and reliable public services throughout the country. The judicial system, law enforcement and taxation bureaucracy are well established and functional. Access to water, sanitation and electricity, as well as to education and health services, is secure, and the existing highly developed communication and transport infrastructure is continually subject to modernization.

Basic
administration

10



1

2 | Political Participation

All relevant political offices are contested in regular, universal and secret multiparty elections, which are widely covered by the media with usually undisputed results. In the 2022 local elections, controversy arose over the election of multiple candidates – most of whom were associated with the KMT – with criminal records and alleged links to organized crime. In response, the DPP majority in the legislature amended the election and recall laws to prevent people convicted of serious crimes (including organized crime, money-laundering, trafficking in weapons and narcotics, or national security crimes) from running for public office. In the run-up to the 2024 elections, discussion focused on another reform of the electoral laws to allow absentee voting, which the current electoral law does not permit. While the KMT pushed for the reforms to be implemented first for referendums on key issues, the DPP-led government raised concerns about the feasibility of the process and the electoral integrity of mail-in ballots cast by Taiwanese working and studying in China. Consequently, no changes regarding absentee voting were made during the review period.

Free and fair
elections

10



1

An ongoing, growing problem is the Chinese government's attempts to interfere in Taiwan's elections by spreading false news on social media and funding candidates who oppose independence. More generally, vote-buying (attracting voters with small gifts, free lunchboxes or small sums of money as "tokens of appreciation") remains an issue in local elections, especially in suburban and rural districts. This is often linked to organized crime groups and has so far withstood legal action. At the national level, however, vote-buying does not jeopardize election fairness or outcomes, not least because of sharp media attention, strict regulations and aggressive prosecution by the authorities.

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

Effective power to govern

10



According to CIVICUS, a global network of civil society organizations, Taiwan is considered the only “open” society in Asia, providing an environment that allows citizens to enjoy their civil liberties and political rights without harassment or undue interference. The freedoms of association and assembly are constitutionally guaranteed, generally unrestricted and extensively exercised. The right to strike is established by law. Existing restrictions on freedom of assembly are specified by law, notably the Assembly and Parade Act. The act originated in Taiwan’s early post-martial law period and has been repeatedly condemned as excessively strict and in parts unconstitutional, both by domestic and international civil rights groups and by Taiwan’s constitutional court in a 2014 decision. According to this act, protesters must obtain advance permission from local police authorities, police can restrict protests near government buildings, and rallies may be subject to forceful dispersal by police. Long-standing plans to amend the act, abolishing the government’s authority to withhold approval for demonstrations, were not realized during the review period.

Association / assembly rights

10



Press freedom and the freedom of opinion are well established and exercised without restriction, 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. However, individual incidents of police obstruction and violence against journalists covering demonstrations have been reported, and journalists can face defamation charges under Taiwan’s existing libel and slander laws for reporting critically on politicians. Still, there was no systematic media harassment or violence against reporters during the review period. Reporters Without Borders’ 2024 World Press Freedom Index ranked Taiwan 27th worldwide (up from 38th) and fourth in the Asia-Pacific, making it one of the regional models of press freedom. Nonetheless, the report suggested strengthening editorial independence in local newsrooms to help safeguard journalistic integrity and bolster Taiwanese citizens’ trust in the media in an increasingly polarized society. In terms of internet freedom, Taiwan is considered one of the freest online environments worldwide, ranked seventh globally and first in Asia according to Freedom House’s 2024 Freedom of the Net report. There have been no official attempts to block websites that are critical of government policy.

Freedom of expression

9



According to CIVICUS, a global network of civil society organizations, the media are relatively free from interference, and journalists can work without major restrictions. The main limitation on freedom of expression is China's informational warfare campaign. A large share of Taiwan's private media is concentrated in the hands of tycoons and enterprises with business interests in China, which leads to self-censorship in critical reporting on China. Moreover, numerous reports have indicated that journalists critical of China are targeted by cyberattacks.

3 | Rule of Law

The separation of powers into executive, legislative and judicial branches is well established, and there is no extralegal exercise of government power. The judiciary functions well and without undue political influence. The system of government is structurally handicapped by the constitutional relationship between the president and parliament in times of divided government. The popularly elected president appoints the head of the Executive Yuan (the premier) without the consent of parliament (the Legislative Yuan), but parliament has the authority to dismiss the cabinet through a vote of no confidence in the premier. Because the president can dissolve the legislature in such a case, parliament's powers to hold the government accountable are limited, and there are almost no institutional safeguards against political stalemate when the president and the legislative majority belong to different parties. Long-discussed plans to address these structural problems by changing the constitution to create either a pure parliamentary or presidential system are routinely aired, but no meaningful steps toward such constitutional changes were taken during the review period.

Judicial independence is well established in Taiwan, and trials are generally fair. The appointment of judges is regulated and is not subject to political considerations. Past allegations that courts are too closely allied with the KMT have not been substantiated by legally relevant evidence. According to the most recent data from 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 continue to harbor long-standing and deep-seated mistrust of the effectiveness, political impartiality and fairness of the country's court system and judges. Such concerns are stoked by sporadic but highly publicized corruption cases involving judicial staff, judges and prosecutors. In an attempt to increase public trust in the judiciary, the National Judge Act was enacted in July 2020 and implemented on January 1, 2023. Under the new rules, local courts are to create a collegiate bench consisting of three professional judges and six private citizens who together preside over criminal trials.

During the review period, the process for appointing justices to Taiwan's Constitutional Court repeatedly drew controversy. President Tsai Ing-wen needed to replace four justices whose eight-year terms ended on September 30, 2023. This situation raised concerns that the president could appoint all 15 members of the court

Separation of powers

10



1

Independent judiciary

10



1

during her tenure, potentially extending her influence beyond her presidency. Opposition parties and judicial reform advocates criticized this possibility, arguing that it could undermine the intended checks and balances within the government. In December 2024, the Legislative Yuan passed amendments to the Constitutional Court Procedure Act, raising the threshold for adjudication by the court. The new provisions require that at least 10 of the 15 grand justices be present to hear a case, with a minimum of nine justices needed to declare a law unconstitutional. Previously, the court could rule with two-thirds of the justices present, and decisions were made by a simple majority vote. At the time of the amendments, the court had only eight sitting justices because of the expiration of terms and pending appointments, leading to concerns that the court would be unable to function effectively. Critics argued that these changes could paralyze the Constitutional Court, undermine the separation of powers and hinder citizens' ability to seek redress for rights violations. However, the KMT and TPP opposition contended that the amendments would restore democratic ideals and align Taiwan's judicial standards with those of other nations. In January 2025, President Lai promulgated the law, but instructed the government to seek a ruling by the Constitutional Court on the changes.

A robust institutional framework to combat official corruption is in place and, for the most part, works effectively. An official Agency Against Corruption (AAC) was established in June 2011, mirroring similar institutions in Hong Kong and Singapore. Since 2013, an online database of government documents has further increased transparency. A range of sunshine laws regulates political donations, declarations of income for public servants and the rules for political lobbying. In addition, instances of political corruption receive significant attention in the mass media, even though the majority of observers agree that the country performs reasonably well with regard to 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.

Fierce competition between the political camps, aggressive reporting and an educated, highly sensitive population ensure that high-profile corruption charges receive extensive publicity and that perpetrators are held accountable under the law. During the review period, a number of high-profile corruption scandals were uncovered and are being prosecuted. The most prominent case involves Ko Wen-je, TPP chairman and a candidate in the 2024 presidential election, who was arrested in August 2024 on charges of bribery and corruption related to his approval of a property development project during his tenure as Taipei mayor. As the review period closed, Ko remained in detention, awaiting trial. Another high-profile case involved former ranking DPP politicians: former DPP Premier Cheng Wen-tsan was detained on corruption charges dating from his time as Taoyuan mayor; former DPP Tainan Council Speaker Lai Mei-hui received a suspended sentence for corruption; and prosecutors investigated DPP lawmaker Lin I-chin for allegedly fraudulently claiming public funds.

Prosecution of
office abuse

10



1

Vote-buying in local elections and connections between organized crime and local politics remain problems in Taiwan. These problems have persisted since the early days of democratization and are regarded as inevitable by most politicians. Following the 2024 general elections, law enforcement investigated more than 3,000 cases of election interference, most of which were related to illegal election gambling. In these cases, as in other cases of office abuse, the legal system and law enforcement prosecute vote-buying and punish 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. Authorities effectively enforce these prohibitions. Consequently, Taiwan enjoys a very good human rights record, according to all relevant international observer groups. There are no reports of the unlawful or arbitrary use of state power against the population or any specific minority. Civil rights are constitutionally guaranteed and well protected. 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 interrogations in order to prevent abuse. LGBTQ+ rights are protected. In May 2023 Taiwan's legislature passed an amendment granting same-sex couples the right to adopt children jointly and same-sex partners the right to adopt their spouse's adopted child, closing a legal gap since the 2019 legalization of same-sex marriage.

Since 2022, the Tsai administration has been following a human rights action plan that calls for 154 action projects to be carried out across eight major human rights issues, with special attention to vulnerable groups such as Indigenous peoples, the LGBTQ+ community, homeless individuals, migrant workers, senior citizens, women, children, disabled individuals and refugees. Nonetheless, Taiwan retains the death penalty despite domestic and international protests, with the government regularly citing opinion surveys to show that a large majority of the public supports capital punishment for serious crimes. Despite a first parliamentary reading in 2016, the country still lacks a refugee act, an issue that has repeatedly made news due to the rise in the number of asylum-seekers coming from Hong Kong since 2019.

While Taiwan is considered the most gender-equal nation in Asia, women face gender-related discrimination. Under Taiwan's notorious adultery law, for instance, sexual infidelity remains a criminal offense, and "unfaithful" women tend to receive harsher treatment than men. As in other parts of East Asia, the abortion of female fetuses has been reported in Taiwan, resulting in sex ratios at birth of around 108 boys per 100 girls (2024). Nonetheless, progress was made during the review period to address remaining gender-related inequalities. In March 2024, Taiwan's government enacted amendments to three gender equality laws to strengthen protections against sexual harassment in workplaces and educational settings, expand support services for victims and clarify employer responsibilities. Critics raised concerns about the effectiveness of the new provisions.

Civil rights

10



1

The rights and legal status of Taiwan's more than 600,000 migrant workers (mostly from Indonesia, the Philippines and Vietnam), who primarily work as industrial laborers, marine workers or household caregivers, have long been a blight on the country's civil rights record. Despite significant progress during Tsai's first term, as well as broad media coverage of their situation and active civil society engagement on their behalf, monitoring and enforcement of the Labor Standards Law as it relates to these blue-collar migrant workers remain insufficient. Another point of contention remains the brokerage system, under which migrant workers must pay high monthly fees to agencies that connect them to Taiwanese employers. In July 2024, Taiwan's legislature passed the New Immigrants Basic Act, which aims to create a more welcoming environment for immigrants, addressing issues such as employment, education and social welfare. Additionally, the establishment of a dedicated government agency to oversee and coordinate immigrant affairs is planned. The act was also seen as improving the legal rights and day-to-day lives of the roughly 400,000 Chinese spouses of Taiwanese citizens who have migrated to Taiwan in recent years.

4 | Stability of Democratic Institutions

All government institutions are democratically legitimate, operate according to legal procedures, and are sufficiently controlled by a functioning system of mutual checks and balances. All political decisions are prepared, adopted, implemented and reviewed through legitimate procedures by the appropriate authorities. The semi-presidential system is prone to deadlock during periods of divided government, and no meaningful attempts at constitutional reform toward a more coherent system of government were made during the period under review. In addition, Taiwanese political competition is characterized by a fierce zero-sum dynamic, both across and within party camps, which undermines lawmaking efficiency even when the president and the parliamentary majority are from the same party, as was the case during the first half of the review period.

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

Performance of democratic institutions



1

Commitment to democratic institutions



1

5 | Political and Social Integration

Taiwan's party system is relatively stable and socially anchored, and it enjoys broad popular support. Divergent opinions within popular and societal interests are reasonably well reflected and aggregated. The level of party-system fragmentation is low. Although 17 parties participated in the January 2024 general elections, the system is dominated by the two large parties, the DPP and the KMT.

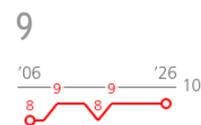
The importance of blocs of smaller parties allied with the DPP or the KMT has declined in recent years because of the electoral success of new non-aligned parties. In the 10th Legislative Yuan (2020 – 2024), the two major parties held 99 of the 113 seats (87.6% of all seats; DPP: 61 seats; KMT: 38 seats), while three small parties, the New Power Party (NPP), the Taiwan People's Party (TPP) and the Taiwan Statebuilding Party (TSP), held a collective total of nine parliamentary seats. Following the 2024 Legislative Yuan elections, the party system saw further concentration: The KMT emerged as the largest party with 52 seats, while the DPP lost 11 to retain 51, bringing their combined total to 103 of 113 seats (91% of all parliamentary seats). Neither the TSP nor the NPP won a constituency seat or met the 5% threshold for at-large representation, while the TPP secured eight seats, consolidating its position as the only meaningful political alternative to the KMT and DPP. Overall, the 2024 elections illustrate the general stability and low volatility of Taiwan's party system, which is nonetheless sufficiently permeable to allow new political parties to enter.

Political polarization over Taiwan's national identity and the camps' divergent stances on Taiwan's policy toward China remains an issue and tends to flare up temporarily in response to high-profile events, such as visits by KMT leaders to China in the run-up to the 2024 elections. At the same time, an increasing share of the population considers itself to be independent, or not aligned with one of the major parties. Taiwan's sophisticated electorate increasingly casts its votes based 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 collectively represent a broad range of societal interests. This network of interest groups is close-knit and politically influential, and operates independently of the state. No non-state interest groups seek 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. This sometimes results in factional strife and public clashes, a pattern that became particularly visible during the 2014 "Sunflower Student Movement." At the same time, momentum generated

Party system



1

Interest groups



1

by the student movement has provided important external impetus to the somewhat calcified political landscape and has helped put a range of social justice and civil rights issues on the political agenda, including judicial reform, LGBTQ+ rights, land rights for Taiwan's Indigenous peoples and the abolition of the death penalty.

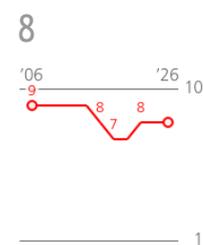
While the state set few limitations on civil society activity and there are no systematic attempts by organized social, communicative and political powers to undermine democracy or civil society, one area of concern is China's exploitation of Taiwan's open civic space as part of the mainland's "united front" and information warfare strategy, including the establishment of civil society groups in Taiwan to further Beijing's interests. In response, the government in 2021 tightened the rules for Taiwanese organizations that invite Chinese officials for professional exchanges.

After the record turnout rate of 74.9% in the 2020 general elections, the 2024 elections saw a 3-percentage-point drop in voter participation. However, a turnout rate of about 71% remains higher than in previous elections (e.g., 66% in 2016). Compared with the November 26, 2022, local elections, when only 61% of all eligible voters went to the polls, this indicates that Taiwanese voters consider national elections as a relevant means of expressing their political preferences and participating in political life. However, surveys of Taiwanese citizens show ongoing disillusionment with established political institutions and only moderate 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. Levels of trust in representative institutions were considerably lower, with only 24% and 31% respectively expressing trust in political parties and the legislature.

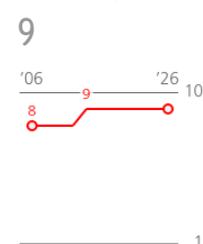
At the same time, because of Taiwan's open, lively civic space, Taiwanese citizens have numerous alternative avenues for political participation and communication through social media and civic activism. Moreover, the principle of democracy is uncontested in Taiwan, with 91% considering a democratic system to be at least "fairly good" and only marginal support for authoritarian alternatives. Even so, large numbers of the population express limited satisfaction with the way democracy works in the country, and a majority believes that the political system requires major changes to function effectively and fairly.

Social self-organization is well developed in Taiwan. A variety of organizations, including an outspoken environmental movement, social groups and lively religious communities, form the backbone of Taiwan's democracy. They create a climate of tolerance and a culture of nonviolence and democratic deliberation. However, in the 2019 World Values Survey (the latest data available), almost 70% of respondents in Taiwan said that one needs to be "very careful" when 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 that many Taiwanese exhibit in their daily lives.

Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Taiwan is a highly developed market economy. The country's socioeconomic development allows nearly all citizens to enjoy adequate freedom of choice. Societal exclusion based on poverty, gender, religion or ethnicity is minimal to nonexistent and is not structurally embedded. In international comparisons, Taiwan's average share of individuals living in low-income conditions – which varies based on thresholds set by municipalities – remains low, at around 1.2% of individuals and 1.6% of households. The relative poverty rate was 7.13% according to 2024 data. In recent years, Taiwan has engaged in a lively domestic debate over rising levels of social inequality. However, income distribution has remained stable since 2010 and during the review period, with a Gini coefficient of around 0.34 throughout this period.

According to the most recent available data (2022), Taiwan is classified as having very high human development, with a Human Development Index score of 0.925. This means that Taiwan is ranked at 24th place on the global index, down slightly from 19th in 2021 (when its score was 0.926). Based on the most recent available data (2021), Taiwan ranks seventh worldwide and first in Asia on the Gender Inequality Index (GII).

Economic indicators		2021	2022	2023	2024
GDP	\$ M	776965.0	765624.0	757335.0	797004.0
GDP growth	%	6.7	2.7	1.1	4.8
Inflation (CPI)	%	2.0	2.9	2.5	2.2
Unemployment	%	4.0	3.7	3.5	3.4
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	15.1	2.8	-4.1	8.7
Import growth	%	16.1	5.2	-5.5	11.4
Current account balance	\$ M	116881.0	101445.0	105810.0	112632.0

Question
Score

Socioeconomic
barriers

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Economic indicators		2021	2022	2023	2024
Public debt	% of GDP	30.1	29.5	29.0	26.3
External debt	\$ M	213592.0	202146.0	206499.0	-
Total debt service	\$ M	4230.0	3100.0	5323.0	-
Net lending/borrowing	% of GDP	-2.1	-1.7	-2.5	-1.5
Tax revenue	% of GDP	9.2	10.1	10.5	-
Government consumption	% of GDP	13.6	13.9	13.7	13.3
Public education spending	% of GDP	1.3	1.5	1.4	-
Public health spending	% of GDP	0.1	0.3	1.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.9	2.0	2.1	2.1

Sources (as of December 2025): 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 that ensure fair competition, as well as largely equal opportunities for all market participants. An independent Fair Trade Commission oversees business practices to ensure fair competition. The prevailing degree of business freedom is high. Market actors face neither entry nor exit barriers. While the government maintains price controls on electricity and salt and regulates prices for fuel and pharmaceuticals, prices are mostly determined by market forces. Cross-border mobility of labor and capital (including currency convertibility) is ensured.

Taiwan consistently ranks highly on global economic indices that measure the ease of doing business, economic freedom and competitiveness. The Fraser Institute's 2024 Economic Freedom of the World Annual Report (based on 2022 figures) ranks Taiwan at 19th place worldwide with regard to its core set of issues, with a score of 7.71 out of 10 (up from 24th and a score of 7.68 in the 2022 report). It additionally comes in at fourth place in Asia, behind Hong Kong, Singapore and Japan. The country continues to perform particularly well in ensuring sound money policies and offering a stable legal system and property rights regime. In the 2024 Index of

Market
organization

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Economic Freedom published by the Heritage Foundation, Taiwan was ranked at fourth place worldwide (up from sixth in 2022), and second among the 39 countries in the Asia-Pacific region. The country receives very high scores for the integrity of its legal system, its well-specified property rights and sensible regulations, as well as the comparative lack of restrictions on the freedom of business, monetary transactions and trade.

The main limitation on Taiwan's economic openness remains restricted access for Chinese firms to Taiwan's markets. Investment in strategic sectors such as LEDs, solar cells and display panels remains capped at less than 50% for mainland investors. However, in non-strategic sectors of Taiwan's manufacturing sector, mainland Chinese investors may take ownership stakes of more than 50%. While overall regulations on foreign investment were simplified in 2019, limits on Chinese investment in sectors Taiwan considers to be areas of national security remained intact during the review period. The 2022 National Security Act and the Act Governing Relations Between the People of the Taiwan Area and the Mainland Area included a requirement of government approval for Chinese or Chinese-funded companies engaged in business activities in Taiwan, as well as increased fines for individuals who violate these limits. Taiwan's shadow economy is relatively large for a highly developed industrial economy, with some estimating that it amounts to as much as 30% of GDP.

Although the state maintains its monopoly over certain basic utilities and services (e.g., water supply and postal services), market competition is well established. Legal frameworks exist to combat cartels, and the rules are well established and effectively enforced by the relevant state institutions.

The Fair Trade Law, which took effect in 2002, provides a coherent, effective approach to combating monopolistic structures and predatory price fixing. An independent Fair Trade Commission (FTC) under the Executive Yuan enforces and administers the legal framework. The FTC is a member of the International Competition Network.

Since 2017, the monopoly previously held by the state-run Taiwan Power Co. (Tai Power) 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, in large part because its economy is heavily reliant on exports. Exports fell 9.8% in 2023 from the previous year's record \$479.4 billion, then rose 9.9% in 2024 to \$475.1 billion. In terms of exports, the country is one of the world's principal exporters of electronic components and information technology products, which accounted for 41% of total exports in 2023 and 37% in 2024. During the review period, tariff rates on industrial products were comparable to those in industrialized nations such as Japan and the United States. Taiwan generally follows World Trade Organization (WTO) rules. With the exception of cross-strait economic relations, the state refrains from intervening in

Competition policy

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Liberalization of foreign trade

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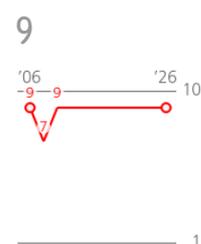
investment planning and foreign trade. Intervention in the former area takes place mainly to control Taiwan's strong trade dependence on China and to restrict mainland investment in sensitive sectors, notably real estate, finance, telecommunications, information technology and semiconductors.

About 40% of Taiwan's exports and more than 60% of its outbound investments went to mainland China (including Hong Kong) over the last two decades, resulting in a heavy trade dependence on China. This has long concerned critical observers. Ratification of follow-up agreements to the cross-strait Economic Cooperation Framework Agreement (ECFA) that were intended to further liberalize trade in services and goods across the Taiwan Strait has been on hold since 2014. Under successive DPP governments since 2016, however, trade diversification has been a high priority, including through the "New Southbound" policy, which aims to deepen Taiwan's regional integration and increase economic, trade and tourist links with 18 neighboring countries to the south – particularly the members of the Association of Southeast Asian Nations (ASEAN) as well as Australia and New Zealand. Consequently, dependence on trade with the mainland has declined, with imports from and exports to China each accounting for about 20% of the total in 2024. In September 2021, Taiwan officially applied to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). However, no progress was made in the accession process during the review period. Nonetheless, Taiwan concluded two significant bilateral trade agreements. In November 2023, it signed the Enhanced Trade Partnership (ETP) agreement with the United Kingdom, marking Taiwan's first trade framework agreement with a European country. The trade pact aims to strengthen economic ties through cooperation in digital trade, investment and net-zero emissions, with the potential for an eventual free-trade agreement. In December 2024, the first agreement under the U.S.-Taiwan Initiative on 21st Century Trade, initiated in 2022 and covering areas such as customs administration, regulatory practices and anti-corruption, took effect, with further negotiations underway for a second agreement addressing labor, the environment and agriculture.

During the review period, Taiwan's banking system remained stable. According to official data, by the end of 2024, Taiwan was home to 5,875 financial institutions. The majority of these institutions were branch offices operated by 38 domestic commercial banks, which accounted for about 81% of total deposits and 92% of total loans. Foreign banks, including those from mainland China, accounted for about 2% of total deposits and 3% of loans. Additionally, there were 23 credit cooperatives catering primarily to regional customers, representing 1.5% of total deposits and 1.6% of loans. Furthermore, the credit departments of farmers' and fishermen's associations operated 311 offices and accounted for 3.8% of deposits and 3.7% of loans.

Taiwan has a tightly regulated, 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

Banking system



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principle, open to foreign participation. Banks benefit from a high proportion of stable customer deposits and from flexibility in accessing domestic capital markets. The system's limited use of cross-border funding makes it less vulnerable to contagion risks during periods of turbulence in global capital markets, such as the global financial crisis of 2008/09 or the COVID-19 pandemic.

The official non-performing loan (NPL) ratio of Taiwanese domestic banks was 0.14% in November 2024. The capital adequacy ratio of Taiwan's domestic banks was 15.2% in September 2024, well above the statutory Basel III minimum of 10.5%. A stress test of 38 domestic banks conducted by the FSC in June 2023 to assess the banks' risk-bearing capacity under adverse and severely adverse scenarios showed that all banks maintained capital ratios above statutory minimums, indicating strong resilience.

On the downside, the banking sector remains dominated by fully and partially state-owned banks, such as Taiwan's state-owned Chunghwa Post. Chunghwa Post operates the country's largest savings service, with 1,295 local branches, accounting for about 12% of total deposits as of November 2024. The banking system is also highly fragmented, with the lowest banking concentration ratio among the region's major financial systems. Although consolidation is underway, it is proceeding very slowly. While this reduces the risks associated with excessive concentration in a few "too big to fail" institutions, it has intensified competition and put heavy pressure on profitability.

8 | Monetary and fiscal stability

Taiwan's government and central bank pursue a prudent foreign-exchange policy consistently aligned with the goal of financial and economic stability. They steered the country well through the global financial crisis of 2008/09 and the financial stress caused by the COVID-19 pandemic. Taiwan's central bank is fully independent and has one of the best reputations in Asia for its cautious, reliable interest-rate policies. As a result, inflation levels and volatility were very low during the review period compared with global trends, with the consumer price index (CPI) increasing by 2.5% in 2023 and a projected 2.2% in 2024. In 2024, the New Taiwan dollar (TWD) saw a slight devaluation in relation to the U.S. dollar, with a projected average exchange rate of TWD 32.7 to USD 1 (from 30.7 in 2022 and 2023).

Taiwan's fiscal and budgetary policies are outlined in the Budget Act, the Public Debt Act and the Fiscal Discipline Act. Taiwan recorded a budget deficit of about 0.6% of GDP in 2023 and a projected deficit of 1.7% of GDP in 2024. Government spending amounted to 17.1% of GDP in 2023 and was projected to be 16.2% of GDP in 2024. These figures reflect Taiwan's commitment to fiscal prudence, with relatively low deficits and stable expenditures. Taiwan's outstanding total public debt, which measures non-self-redeeming debt across all levels of government, is low in

Monetary stability

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Fiscal stability

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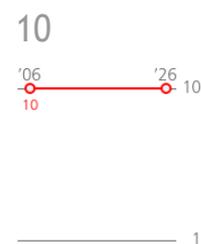
international comparison. It was projected to be 30.1% of GDP at the end of 2024, down from 30.7% in 2023 and 32% in 2022. This is low by global and regional standards and is projected to decrease further in the coming years. These figures reflect Taiwan's ongoing efforts to manage and reduce public debt relative to its economic output. Taiwan's foreign-exchange reserves reached a record high of \$576.7 billion in December 2024, up from \$554.9 billion in 2022. Tax revenues, excluding social security contributions, have been rising in recent years, from 12% of GDP in 2020 to 14.7% in 2023, with projections for 2024 indicating a slight further increase to 15.1% of GDP. Taiwan's current account surplus amounted to 14.8% of GDP in 2023, with a projected slight decrease to about 12% of GDP for 2024. These figures underscore Taiwan's strong external financial position.

9 | Private Property

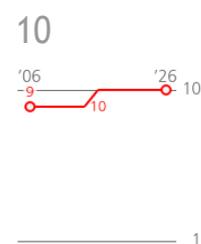
Taiwan's property rights regime is well established and enforced by an independent judiciary. Processes for the nationalization or expropriation of private property are regulated by law, and require fair compensation. The country consistently ranks high on property rights in global economic freedom and business environment indexes. This remains true despite individual disputes over land expropriation in recent years that have received considerable media attention and highlighted vague language in Taiwan's Land Expropriation Act and deficiencies in the 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 not been featured on the U.S. Special 301 Watch List of countries with inadequate intellectual property laws.

Taiwan's economy is primarily based on small- and medium-sized private companies, which are adequately protected by the state. The state remains directly involved in some "strategic" economic areas, including shipbuilding, petroleum, steel, sugar, tobacco and liquor, banking, insurance and railway transport, and in some cases holds a majority of shares in such firms. Basic utilities in areas such as conventional power production, water supply and postal services remain monopolized by Taiwan's state-owned enterprises (SOEs) even though a January 2017 amendment to the Electricity Act allows "green" energy producers to sell directly to customers. SOEs, such as the oil producer CPC Corporation and Taiwan Tobacco and Liquor Co., continue to have market shares of 70% or more, even in liberalized markets. Apart from the areas of state monopoly, SOEs compete directly with private companies. No progress has been made on the long-discussed eventual privatization of the remaining SOEs, including CPC Corporation, Taipower and Taiwan Sugar, indicating that although further liberalization may be explored in the future, there are currently no serious plans to relinquish state control in these sectors.

Property rights



Private enterprise



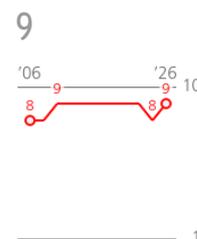
10 | Welfare Regime

Social welfare expenditures accounted for 27.2% of the government budget in 2023 and a projected 29.3% in 2024, making social welfare the single largest budget item. Taiwan continues to have one of the most comprehensive, well-developed welfare regimes in Asia. The social safety net is closely knit and provides substantial protection against poverty and other social risks; it was further bolstered and extended during the review period by structural changes and one-time measures. In 2023, for instance, the Executive Yuan expanded the annual budget for rent subsidies, especially targeting young people, aiming to aid 500,000 households a year in meeting the high and rising cost of living. This would cover nearly 60% of renters. In the same year, the government allocated \$12.49 billion in surplus tax revenue to provide cash handouts to all citizens and taxpaying residents to ease the economic burden of the COVID-19 pandemic and support various social welfare programs. Still, concerns regarding eligibility for support under the Public Assistance Act have grown in recent years. It is alleged that currently, more than 2 million disadvantaged people cannot receive aid due to outdated regulations. This would mean that almost 10% of the population does not receive adequate support. The Minimum Wage Act took effect on January 1, 2024, to support the living standards of low-income workers.

The state provides a compulsory National Health Insurance (NHI) program to all citizens and to foreigners who have lived in Taiwan for more than six months. There is also unemployment insurance and a voluntary labor pension program with portable retirement accounts. In addition, there is mandatory coverage under a national pension scheme that includes unemployed people, non-working spouses and freelancers. Financial support is also provided to people with disabilities and disadvantaged households. This includes allowances for living costs, health care and special subsidies. The Public Assistance Act, which took effect July 1, 2011, includes amendments that set the conditions for long- and short-term assistance to lower- and middle-income households. These measures involve the provision of living subsidies to cover different areas of threatened well-being. The 2015 Long-term Care Services Act introduced a legal framework to address the long-term care requirements of Taiwan's rapidly aging population. In 2021, injured workers' rights and financial support were strengthened. Since 2023, childcare subsidies have been paid to families with young children regardless of household income level.

Following the January 2013 reform of the National Health Insurance (NHI), which aimed to increase revenues and balance the structural deficits that have plagued the system since its inception, the government now funds more than one-third of the NHI budget. The rest of the budget is financed by premiums paid by the insured and employers. Since January 1, 2021, premiums have been capped at 5.17% of an individual's salary. The NHI budget is bolstered by a supplementary premium of

Social safety nets



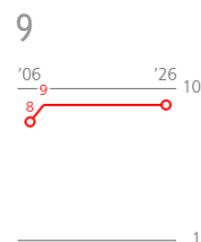
2.11% on non-payroll income from stock dividends, interest earnings, rents and bonuses exceeding four months' salary. Additional income comes from the Health and Welfare Surcharge on Tobacco Products (TWD 20 or \$0.60 per standard pack of cigarettes) as well as proceeds from the national lottery and the copayments individuals make for medical services. Military conscripts, prison inmates and low-income households do not have to pay; their premiums are fully covered by the government. The NHI was well-equipped to handle the COVID-19 pandemic. NHI support was accompanied by a number of financial relief measures to mitigate the economic and social impacts of the pandemic on individuals, which contributed to Taiwan's highly successful handling of the pandemic. Since 2021, NHI revenues have slightly exceeded expenditures, resulting in growth of its well-endowed and stable safety reserve fund during the review period.

The pension system for Taiwan's 450,000 retired public servants and military personnel was long ago identified as a potential area of risk within the country's social safety net, with numerous pension subsystems projected to run out of money within the next decade if no adjustments are made. In December 2022, the Legislative Yuan passed a bill to strengthen the pension funds for civil servants and teachers, requiring monthly contributions to individual accounts instead of to a common pension fund. The contributions total 15% of civil servants' and teachers' salaries – 35% of which is paid directly by individuals, with the remaining 65% paid by the government. These new regulations apply only to civil servants hired after July 1, 2023. In 2024, the KMT proposed amendments to the Act Governing Civil Servants' Retirement, Discharge, and Pensions that would freeze the annual reduction in the income replacement ratio for retired teachers and government workers, which would put greater strain on the already debt-burdened pension system. However, these reform plans had not materialized by the end of the review period.

Under the constitution, all citizens are equal before the law “irrespective of sex, religion, race, class or party affiliation.” Protections for women's rights have improved steadily in recent years, with the government focusing on preventing and punishing domestic violence and sexual assault, as well as on protecting women's labor rights. A cabinet-level Department of Gender Equality was established in 2012. The Gender Equality in Employment Act, last amended in 2013, requires respect for the principle of equal pay for equal work. Adequate mechanisms to prevent sexual harassment have been implemented in every workplace. Employees – women and men – may apply for unpaid parental leave of up to two years to care for children under the age of three. The act also guarantees women eight weeks of paid maternity leave. In 2021, the Gender Equality Policy Guidelines were amended to strengthen gender equality in the workplace.

Based on 2021 data (the most recent available as of the time of writing), Taiwan was ranked seventh worldwide and first in Asia on the Gender Inequality Index (GII), with a score of 0.036 (a score of 1 indicates extreme gender inequality). This is

Equal opportunity



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reflected in women's strong role in education and the economy. In 2014, female university students outnumbered their male counterparts for the first time. However, women are still under-represented among university graduates with advanced degrees. The share of Taiwanese women earning master's and doctoral degrees is lower than among women in major industrialized nations such as the United States, Germany, South Korea and France.

In 2022 (the year for which the most recent data are available), the labor force participation rate for women ages 15 or older was 51.6%, compared with 67.1% for men. The gender pay gap has increased compared with the previous review period, with women earning an average of 15.8% less than men. Since the January 2024 parliamentary elections, 47 of 113 Legislative Yuan representatives (41.6%) are women, almost matching the record 48 seats in the previous legislature. This is much higher than the global average of 26.7%, and would rank Taiwan 26th worldwide with regard to women's share in parliaments. It is also the highest ratio of female to male lawmakers among East Asian democracies, considerably above that in South Korea (19.1%) or Japan (10.3%). In the 2024 presidential election, Taiwanese elected a female vice president, Hsiao Bi-khim, for the second time, after electing and reelecting President Tsai Ing-wen as the first female president in 2016 and 2020.

With respect to the Gender Gap Index (GGI), which measures gender gaps in economic participation, educational attainment, political representation and health, Taiwan remains a high performer. On the 0-to-1 scale, with 1 marking the highest degree of equality, Taiwan's score was 0.76 in 2023, ranking it 34th globally (up four ranks from the previous BTI report) and second among Asian countries, after the Philippines.

Deeply entrenched cultural traditions that continue to affect the legal system represent the greatest stumbling block to gender equality. For example, women often face significant pressure to waive their inheritance rights in favor of their male relatives, as traditional practice dictates that only men can pass down property and the family name. However, the proportion of women waiving inheritance rights has declined slightly over the last decade, a trend that continued during the review period.

Taiwan's Indigenous peoples, which account for about 2% of the population, have access to social welfare and affirmative action programs under specific laws that protect their rights. These programs include low-interest housing loans and rent subsidies; preferential access to senior high schools and universities; a 1% quota in the workforces of government agencies, public schools and state enterprises with 100 or more employees; and efforts to preserve their language and culture. In addition, six seats in the Legislative Yuan are reserved for representatives from Indigenous constituencies. While the social gap between these Indigenous groups and the Taiwanese Han majority has narrowed over the years, inequality persists.

11 | Economic Performance

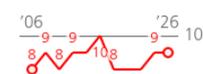
During the review period, Taiwan's highly developed economy performed well, particularly given disruptions in the global economy due to Russia's war against Ukraine and an economic downturn in mainland China. Taiwan's economy saw only sluggish growth of 1.1% in 2023 but grew more strongly in 2024, with a projected 4.3% increase. GDP per capita was \$32,442 in 2023 and was projected to be \$33,864 in 2024. According to IMF estimates, this put Taiwan's 2023 GDP per capita ahead of regional neighbors Japan and South Korea. In terms of net financial assets per capita, the Allianz Global Wealth Report 2024 ranked Taiwan second in Asia, trailing Singapore, and fifth globally. Inflation levels and volatility were comparatively low relative to global trends, with the consumer price index (CPI) increasing by 2.5% in 2023 and a projected 2.2% in 2024. Exports dipped by 9.8% in 2023 from the record high of \$479.4 billion in the previous year but grew by 9.9% in 2024 to \$475.1 billion. Exports reached a total value of \$479.4 billion in 2022, a 7.4% increase from the \$446.37 billion recorded in 2021, which was also a record high. Throughout the review period, Taiwan recorded solid trade surpluses, with a record \$80.6 billion in 2023 and a projected \$80.8 billion in 2024, up from \$51.3 billion in 2022.

Unemployment rates remained relatively stable over the review period. In 2023, the overall labor force participation rate was 59.2% (equal to 2022) and the unemployment rate was 3.5% (down from 3.7% in 2022). In 2024, these rates were respectively 59.3% and 3.4%. The relatively high share of young people among the unemployed remains a concern, with people between the ages of 20 and 24 having the highest unemployment rate, at 11.6%.

Tax revenues, excluding social security contributions, have been rising in recent years, from 12% of GDP in 2020 to 14.7% in 2023. Projections for 2024 indicated a further slight increase to 15.1% of GDP. Taiwan's current account surplus was 14.8% of GDP in 2023, with a projected slight decrease to about 12% of GDP for 2024. Gross capital formation contracted by 7.8% in 2023 but was forecast to rise by 5.4% in 2024, to a total of 25.6% of GDP. Taiwan's authorities approved foreign direct investment (FDI) inflows worth \$11.25 billion in 2023, reflecting a 15.4% decrease compared with 2022. In 2024, total approved FDI dropped further to \$7.86 billion, marking a 30.2% decline from the previous year. Despite this downturn, strong performances in dynamic sectors such as semiconductor manufacturing, ICT, biotechnology and green energy continue to attract foreign investment, underscoring Taiwan's resilient investor confidence and the critical role of FDI in driving economic growth.

Output strength

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12 | Sustainability

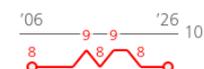
framework for environmental policy, and there is a broad consensus that economic development must be ecologically sustainable. Environmental policymaking is institutionally integrated into the government through the Ministry of Environment, which was created in May 2023 by upgrading the former independent, cabinet-level Environmental Protection Administration (EPA). In cooperation with various other government entities, the EPA and later the ministry provided for systematic environmental policy planning and a decrease in the externalization of costs during the review period. In July 2024, for instance, Taiwan's Legislative Yuan passed a new marine conservation law that establishes protected areas in which civilian maritime traffic is restricted and activities such as fishing require government approval.

Taiwan relies heavily on energy imports, with 96.2% of its total energy supply imported in 2023, slightly below the rate of 97.7% in 2021. Energy is generated primarily by burning fossil fuels, with oil, coal and natural gas accounting for 93.1% of the total energy supply in 2023, up from 92.3% in the last reporting period. The contributions of nuclear power and renewable sources to Taiwan's energy mix remained low, at 3.9% and 3% of the total energy supply, respectively, although the latter rose from 2.1% in 2021.

Consequently, greenhouse gas emissions continue to pose the most serious long-term problem for Taiwan's environmental performance. Developing green technologies and mechanisms for raising energy efficiency have been important government objectives since 2010. The 2014 National Green Energy and Low Carbon Master Plan stipulates 10 individual measures to improve efficiency, including developing an adequate regulatory framework, lowering the share of energy derived from fossil fuels, and conducting environmental education and public instruction. In June 2015, the Greenhouse Gas Reduction and Management Act was passed by the Legislative Yuan, setting a target of reducing Taiwan's greenhouse gas emissions to less than half its 2005 level by 2050. The Climate Change Adaptation Act, which took effect in February 2023, sets a target of achieving carbon neutrality by 2050, introducing a carbon pricing system to incentivize emission reductions. In May 2023, the Renewable Energy Development Act Amendment was revised to mandate the installation of solar panels on all new buildings, promoting the adoption of renewable energy sources. The 2023 – 2026 National Climate Change Adaptation Action Plan outlines strategies for climate change adaptation across seven major areas, aiming to enhance Taiwan's resilience to climate impacts. Prior to taking office in May 2024, newly elected President Lai vowed to prioritize Taiwan's transition to net-zero carbon emissions through five main strategies, including accelerating green energy development, promoting low-carbon technologies, enhancing sustainable living,

Environmental
policy

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supporting industry transitions and ensuring an equitable transformation for all sectors. In January 2025, Lai announced that Taiwan would strive to reduce carbon emissions by up to 30% by 2030, up from the previous goal of reducing emissions by up to 25%.

The reduction of carbon dioxide emissions is further complicated by the Tsai government's decision to remove Taiwan's three nuclear power plants from the grid by 2025. This decision aligns with the goals of Taiwan's vocal environmentalist movement, particularly in the aftermath of the 2011 Fukushima disaster. Despite a 2018 referendum vote against ending nuclear power in Taiwan, the DPP government remains determined to proceed with the phaseout. In a subsequent referendum in late 2021, a proposal to resume construction of a fourth nuclear plant, halted in 2015, was narrowly rejected. To compensate for the decrease in power supply, the administration has suggested temporarily expanding Taiwan's coal-fired power plants and pursuing additional measures, such as expanding geothermal and small hydropower and installing renewables-based power plants in neighboring countries, such as the Philippines, with the power transmitted back to Taiwan.

Enforcement of Taiwan's environmental laws and policies has been robust, bolstered by the streamlined regulatory framework under the Ministry of Environment and consistent oversight by agencies such as the EPA. Official reports and media coverage indicate that initiatives – including the Greenhouse Gas Reduction and Management Act and the Renewable Energy Development Act Amendment – have achieved steady compliance and measurable progress, reinforcing the government's commitment to environmental protection.

Taiwan has a highly developed education system with high-quality secondary and postsecondary education as well as vocational training, reflecting the significance of education in a society still heavily influenced by Confucian values. In 2023, Taiwan reported an overall literacy rate of 99%. Gross enrollment rates were 95.4% at all levels of education and 90.3% at the tertiary level, a notably high level compared with international figures. In 2023, the average expected time spent in education was 16.8 years. Since 2014, education has been tuition-free for the first 12 years, with the first nine years compulsory (six years of elementary school and three years of junior high school). As of 2023, nearly all junior high school graduates went on to further studies such as academic senior high schools or vocational training at technical high schools.

Education policy aims to maintain and further improve Taiwan's educational standards. School curricula are continually revised to align with international developments, so Taiwanese students consistently rank among the top performers on international comparative tests. According to the most recent Programme for International Student Assessment (PISA) test released in 2023 (based on 2022 data), Taiwan's 15-year-old students scored significantly higher than the OECD average in the subjects of mathematics, reading and science, ranking third overall (up from

Education policy /
R&D

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eighth in the previous test round), third in mathematics, fourth in science and fifth in reading. This also indicates that, unlike many other developed economies, Taiwan's education system adapted well to the challenges posed by the COVID-19 pandemic. In addition, Taiwan's government continues to seek further improvements in educational standards. In 2023, for instance, the Ministry of Education introduced semiconductor courses into high school curricula to facilitate STEM (science, technology, engineering and mathematics) education. Moreover, recognizing that educating older generations will be key to maintaining a highly productive economy given the rapid aging of Taiwan's society, the Ministry of Education announced a new university program in January 2025 for individuals 55 and older. The program offers courses in artificial intelligence, financial technology, health management and elderly care to help middle-aged people enhance their skills and reenter the job market, with certifications and degrees available upon completion.

Total education expenditures amounted to 4.26% of GDP in 2023 (down from 4.59% in 2021), which is not particularly high by international comparison, given that Taiwan is an industrialized nation where a good education is of pre-eminent significance. However, education accounted for about 18.3% of all government expenditures in 2023 (down from 20.0% in 2022 and 19.8% in 2021), making it the third-largest line item in Taiwan's government budget after social welfare and defense.

R&D is a major concern for Taiwan's natural-resource-poor economy and has long been a policy priority. R&D spending is high compared with international standards, with overall expenditures amounting to 3.97% of GDP in 2023 (up from 3.77% in 2021), of which 14.5% was government funded. The Taiwanese government manages 13 science parks across the island that offer hardware infrastructure and services to high-tech firms. It focuses its resources on developing cutting-edge technologies such as 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 small, targeted initiatives to improve Taiwan's R&D environment. These include a plan to cultivate local talent and recruit international talent, an innovation program to expand the country's biomedical industry, an emerging industries R&D program, the further development of Taiwan's space technology, and measures to attract major international companies to set up R&D centers and consolidate Taiwan's position as a research and production hub for IT. In 2023, the Executive Yuan's Office of Science and Technology Policy announced the Taiwan Artificial Intelligence (AI) Action Plan 2.0 to further develop the nation's AI industry, following the previous four-year Taiwan AI Action Plan, which was approved in 2018 and ran through 2021, and trained 33,000 people in AI-related industries. Strengthening AI is expected to help resolve future labor shortages resulting from Taiwan's hyper-aging society, and is also seen as a way to achieve the nation's environmental goals, such as net-zero greenhouse gas emissions.

Governance

I. Level of Difficulty

Taiwan faces few structural constraints on governance thanks to its high level of socioeconomic development, sound market economy and good economic performance, well-developed education system and research environment, well-qualified labor force, capable bureaucratic apparatus, relatively low social disparities in income and status, absence of serious ethnoreligious conflict, and unchallenged state monopoly on the use of force. Social movements and social interest organizations of all types are firmly embedded in society and play an essential role 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 hampered by a high level of exposure to natural disasters, as typhoons and earthquakes hit the island every year and tax the government's administrative capacity and financial resources. Moreover, Taiwan is almost completely dependent on energy imports, which leaves it vulnerable to external shocks, especially to potential disruptions caused by a conflict with China. An increasingly pressing problem is Taiwan's aging population. For a long time, Taiwan has had one of the lowest birth rates globally. Since 2020, Taiwan's total population has declined. The country is projected to become a super-aged society in 2025, with 20% of its population aged 65 or older. Its total population is expected to fall from 23.4 million in 2024 to below 23 million in 2030. By 2070, Taiwan's population is forecast to shrink to around 15 million. This trend will put tremendous pressure on almost all aspects of the country's economy and society, including its ability to defend itself against military pressure from China.

Taiwan's main structural constraints are its diplomatic isolation and China's de facto veto power over its participation in the international community as a sovereign state. These constraints significantly impede the self-determined management of its international relations and limit Taiwan's political and economic space. During the review period, China has continued to intensify pressure by greatly increasing the number and intensity of military incursions into Taiwan's air and sea space; conducting military maneuvers off Taiwan's coasts; putting pressure on Taiwan's few remaining official diplomatic allies; and engaging in "gray zone" tactics including cyberattacks, attempts to influence elections and the establishment of spy networks.

Structural
constraints

3

'06 _____ '26 10



Taiwan's civic engagement has steadily strengthened since the end of the authoritarian era in the mid-1980s, when social movements played a major role in the transition to democracy and contributed substantially to democratic consolidation.

Today Taiwan has one of the most vibrant civil societies in Asia, characterized by numerous NGOs engaged in a wide range of public activities. Ideological polarization and division concerning issues of national identity and Taiwan's relationship to China still play a role and at times affect the state-society relationship negatively. However, the 2014 Sunflower Movement not only gave Taiwan's civil society new impetus and political relevance, but also demonstrated the political system's ability to respond to articulated grievances and channel them through political competition in the party landscape, as seen in the emergence of the New Power Party. The impact of the Sunflower Movement is not limited to party politics, as demonstrated by Audrey Tang – an independent free software programmer and Sunflower activist – becoming minister of digital affairs in the Tsai administration.

Throughout the review period, Taiwan witnessed significant civil society mobilizations on a range of legislative and social issues. In 2023, for instance, NGOs mobilized around the issues of labor and Indigenous rights. Thousands protested in Taipei on International Workers' Day for stronger labor protections, and National Taiwan University (NTU) students demanded the return of Bunun ancestral remains, highlighting ongoing concerns about workers' welfare and Indigenous cultural heritage. In 2024, the "Bluebird Movement" saw tens of thousands of people protest legislative reform bills proposed by the Kuomintang (KMT) and Taiwan People's Party (TPP), fearing the measures would undermine democratic processes. Activists also rallied against proposed surrogacy legislation, expressing concern about the potential commercialization of women's bodies.

In the 2019 World Values Survey (the latest year for which data was available as of the time of writing), almost 70% of respondents in Taiwan said one needed to be "very careful" when dealing with people. Yet this relatively low level of reported interpersonal trust does not undermine the overall strong social bonds, the variety of existing networks of mutual support, or the high levels of social responsibility that many Taiwanese exhibit in their daily lives.

There is no politically motivated violence in Taiwan. The old conflict between mainlanders and native Taiwanese has evolved into a societal cleavage over Taiwan's future political relationship with China and the most sensible approach to securing the nation's sovereignty, long-term security and prosperity. This 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 interparty and intraparty competition and zero-sum politics. In addition, this divide has provided a fulcrum for China's divide-and-rule strategies, which aim to weaken political cohesion and set political parties against

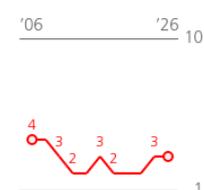
Civil society traditions

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Conflict intensity

3



each other. Although Taiwan remains far from the pernicious polarization observable in some other countries, the intensity of conflict continues to increase slowly but steadily, affecting regional and international politics and making it increasingly difficult to develop consensus-oriented political solutions. This is most evident in the question of how Taiwan should handle its relationship with mainland China, but polarization and political conflict are also visible in other areas, especially since the 2024 general elections, which resulted in a divided government in which a DPP government faces an opposition majority in the legislature.

II. Governance Performance

14 | Steering Capability

The main strategic priority of Taiwan's government is ensuring the country's continued existence as a de facto (if not de jure) sovereign nation. Beyond that, the Tsai and Lai governments aim mainly to improve living conditions and social participation, especially for disadvantaged groups such as the poor, women and children, Indigenous peoples, and those in LGBTQ+ communities. The administration's main economic goal is to ensure robust growth and development while further reducing Taiwan's economic dependence on China and diminishing the nation's environmental footprint.

In general, Taiwan's government sets strategic priorities and only rarely postpones them in favor of short-term political benefits. In this way, the government can and does draw on a highly developed, professional administrative apparatus and tight-knit networks of academics and civil society organizations to provide input and independent expertise. 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 by China's de facto veto power over Taiwan's foreign policy ambitions and by considerable polarization in Taiwan's public sphere over how best to deal with Beijing's direct and indirect political and economic influence. The latter issue continues to dominate substantive differences between the two camps, leading to fierce zero-sum political competition. Given Taiwan's political system, 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 to implement. This was the case during the first half of the review period, when the Tsai Ing-wen administration was able to set and quickly adapt policy priorities, unfettered by partisan obstruction or intraparty factional struggles. Since

Question
Score

Prioritization

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the January 2024 general elections, however, the DPP-led government has been confronted with an opposition majority in the legislature, requiring considerable coordination across party lines for the government to prioritize and organize its policy measures. While such cooperation has been successful in many substantive policy areas, the legislature has pushed through highly controversial amendments to the Constitutional Court Procedure Act that raise the thresholds for Constitutional Court rulings. Moreover, in January 2025, the opposition-controlled Legislative Yuan approved unprecedented budget cuts of 6.6% (approximately \$6.34 billion) across a wide range of sectors, including defense and technology as well as the operating expenses of numerous ministries and government agencies.

As Taiwan's market economy and democratic order are already well developed, any assessment of the efficiency of implementing the government's domestic priority policies begins from a strong starting point. Moreover, the day-to-day implementation of political decisions by Taiwan's differentiated and professional administration functions well, and there have been no cases of serious administrative obstruction or bureaucratic foot-dragging. Throughout the first half of the review period, conditions for effective and efficient implementation were excellent, with the DPP controlling the presidency and parliament. This allowed the government to effectively implement several key policies aligned with its strategic priorities. In response to escalating threats from China, for instance, Taiwan increased its defense budget, aiming to raise defense expenditure to 3% of GDP, and additionally advanced its New Southbound Policy, strengthening economic ties with Southeast Asian nations as a means of reducing reliance on China. The government also amended the Renewable Energy Development Act in May 2023, seeking to promote green energy and reduce Taiwan's environmental footprint, and effectively implemented various social welfare reforms. These actions demonstrate Taiwan's commitment to its strategic priorities, addressing both external challenges and internal development goals.

The conditions of divided government in the second half of the review period did not seriously undermine the DPP-led government's administrative capacity. However, cuts to the 2025 central government budget imposed by the KMT/TPP majority are likely to strain the government's ability to fully implement its policies, especially those that rely heavily on public funding. This could slow progress on key initiatives.

Political learning in Taiwan tends to occur especially in the areas of economic and social policymaking, thanks to the leadership's generally close ties with well-established social organizations and interest groups that keep it informed of the need for policy adjustments and new initiatives. Taiwan has an extensive system of special committees, staffed by scholars and bureaucrats affiliated with or attached to government ministries and commissions, that evaluate policies and advise on identified shortcomings and necessary corrections.

Implementation

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Policy learning

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The DPP and President Tsai Ing-wen reformulated their stance on cross-strait policy prior to the 2015/16 elections, and she continued to steer a middle road during her last year in office. Her successor, President Lai, has been viewed as a “deep-Green” politician favoring Taiwanese de jure independence for much of his political career. Ahead of the 2024 elections, however, Lai softened his pro-independence stance, pledging to continue Tsai’s policy of emphasizing Taiwan’s sovereignty while focusing on reducing dependence on China, strengthening ties with democratic allies, enhancing deterrence and taking a pragmatic approach to cross-strait relations. Consequently, throughout the review period, the government maintained an uncompromising stance in favor of Taiwanese self-determination and democracy in the face of ongoing and escalating political pressure and military aggression from mainland China.

Political learning and adaptation also take place in less contentious and less visible policy areas. In May 2023, for instance, in response to a series of high-profile data breaches, the Personal Data Protection Act was amended to create an independent data protection agency. The new Personal Data Protection Commission will oversee data protection, unify the existing fragmented system to prevent future leaks and ensure stronger enforcement of data security laws. However, the amendment had not come into effect by the end of the review period. Another example of political learning was the Ministry of Education’s November 2024 adjustment of the “Bilingual 2030” plan, launched in 2018 with the goal of introducing bilingual instruction in select subjects and fostering an environment in which students can use English in their daily lives. Reacting to criticism and input from English teachers, the program shifted its focus from teaching other school subjects in English to teaching English exclusively in English-language classes, creating “English villages” in schools, and fostering English-friendly environments on campuses to provide more practical English learning opportunities for students, particularly in rural areas.

15 | Resource Efficiency

Taiwan has a long history of efficient bureaucratic policymaking, which has earned it the label of a successful developmental state. Against this background and compared with most countries in Asia, the government uses available economic and human resources efficiently 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 areas of responsibility, the rank and file are 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 appointed public officials, not professional civil servants.

Efficient use of assets

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Taiwan's public sector uses taxpayers' money efficiently. Representing 17.1% of GDP in 2023 and a projected 16.2% in 2024, government consumption is low compared with that in other highly developed countries. State budgets tend to be balanced. Taiwan's outstanding total public debt across all levels of government is projected to be 29.7% of GDP at the end of 2024, slightly up from 29% in 2023 but significantly less than 32% in 2022, which included additional debt incurred to fund the special budget in response to the COVID-19 pandemic. Debt is thus well below the 40.6% debt ceiling mandated by the Public Debt Act. Effective auditing is ensured by the Ministry of Audit within 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 are transparent, and both the individual ministries and the cabinet-level Directorate General of Budget, Accounting and Statistics (DGBAS) publish a wide range of data on expenditures and programs.

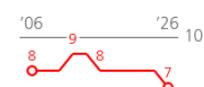
Taiwan's resource efficiency is reflected in its strong performance in international indexes. For instance, Taiwan was ranked eighth globally on the measure of government efficiency in 2024, according to the International Institute for Management Development's World Competitiveness Yearbook.

Traditionally, Taiwan's political system has been shaped by personal ties and bureaucratic networks across all tiers of government, ensuring effective coordination and policy coherence. It is strongly influenced by the president, who not only sets the agenda for foreign and China policy but also is expected to resolve conflicting policies and competing interests within the government apparatus. Because the president nominates the prime minister without the need for 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 suited to policy coordination when the president and the parliamentary majority are controlled by the same party, but it reduces the likelihood of coordination under divided government. With the DPP controlling both the presidency and a majority in the Legislative Yuan during the first half of the review period, political coordination was relatively smooth, and the government was able to pursue its political aims and make good on its campaign promises. However, since the DPP lost its parliamentary majority in the January 2024 elections, Taiwan has experienced increased challenges in policy coordination due to the divided government. A notable example is the legislature's decision to cut substantial amounts from the central government budget, which has weakened the central government's control over resource allocation and slowed the implementation of national policies.

Policy
coordination

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

The legal framework for combating corruption is based on the Criminal Code and a number of “sunshine bills” passed since the early 1990s, including the Anti-Corruption Act, last amended in June 2016. The Public Functionary Assets Disclosure Act of 1993 targets political corruption and requires high-ranking officials and elected representatives to declare all income and assets. 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 requires local government officials and elected representatives to inform their responsible agencies of their communications with lobbyists. The 2011 Anti-Corruption Informant Rewards and Protection Regulation establishes a framework to protect whistleblowers who report corruption and defines rewards for informing authorities of corruption cases.

All government agencies, at every level of the administration, have rules of conduct to prevent corruption and abuse of office. A number of agencies are involved in planning, organizing and enforcing the tightly knit legal anti-corruption framework. The Ministry of Justice’s Investigation Bureau, for instance, is tasked with preventing and investigating vote-buying, money-laundering, counter-terrorism financing and corporate corruption. The Customs Administration, under the Ministry of Finance, is charged with preventing and controlling money-laundering. The Ministry of the Interior supervises political donations and lobbying. Building on the example of Hong Kong and Singapore, Taiwan established the Agency Against Corruption (AAC) in July 2011 under the Ministry of Justice to make the prevention, investigation and prosecution of corruption more effective. The Control Yuan, a constitutional body that supervises government and public officials, participates in the effort to curb political corruption. Its Ministry of Audit is responsible for ensuring that public resources are spent efficiently. All these agencies cooperate with international partners to fight corruption. In addition, Taiwan’s media, academia, civil society and public are very sensitive to instances of political corruption and regularly play a role in exposing officeholders who have allegedly misbehaved.

Together, these actors ensure that Taiwan continues to demonstrate a strong commitment to combating corruption. District prosecutors initiated 386 cases involving 1,237 individuals in 2023 and 693 cases involving 1,700 individuals in 2024. Law enforcement also remains vigilant in tackling election-related offenses, investigating more than 3,000 cases of election interference during the 2024 general elections, most of which were related to illegal election-related gambling. However, reports indicate that election-related violations declined in the 2024 general elections. The government has also strengthened integrity measures through initiatives such as the Integrity Awards, recognizing agencies that excel in transparency and ethical governance. These developments underscore Taiwan’s robust institutional mechanisms for preventing and prosecuting corruption, despite ongoing challenges.

Anti-corruption policy

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Small-scale bribes to speed up administrative procedures and local vote-buying remain problems in Taiwan but are considered an inherent part of local political culture rather than corruption. Compared with political corruption, commercial corruption is less stringently regulated and receives less public attention. Big business and politics remain closely intertwined, and the bribery of government officials and diversion of public money to private companies are reported, especially in public procurement contexts. In recent years, Chinese government organizations have been accused of funding Taiwanese candidates opposing DPP candidates through Taiwanese businesses operating on the mainland.

16 | Consensus-Building

All major political actors firmly agree on maintaining and strengthening Taiwan’s market-based democracy. Strong and partially ideological differences between the two main political camps concerning the proper approach toward the People’s Republic of China and the independence-unification question remain. However, these do not detract from the overall firm consensus among the elites and the public on Taiwan’s identity as a democratic state with a market economy.

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There are no anti-democratic veto actors in Taiwan.

Overall, the fierce, zero-sum tendencies of political competition in Taiwan lead to polarized discourse on many political issues and the politicization of substantive matters. Examples from the review period include skirmishes, screaming matches and attempts to block orderly procedures in the Legislative Yuan, sometimes turning violent; the use of referendums and recall motions by local officials primarily for partisan gain; and smear campaigns in the lead-up to the national elections.

The most serious substantive domestic cleavage concerns cross-strait relations and political identity, which serve as the lens through which almost all other policy issues are interpreted. Over the last two decades, the ideological conflict between advocates of Taiwanese independence and advocates of unification with China has increasingly

Consensus on goals



Anti-democratic actors



Cleavage / conflict management



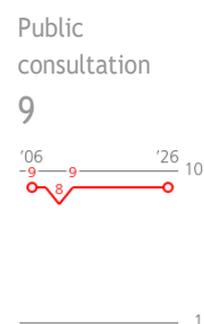
shifted toward a conflict over the scope, context and strategic timing of managing cross-strait policies and economic integration with the mainland while maintaining Taiwan's de facto sovereignty. The divergence in approaches to cross-strait relations remained fierce throughout the review period and continues to be the dominant issue differentiating the political platforms and public perceptions of the two main opposing parties.

The challenges of moderating conflicts resulting from this cleavage were particularly evident in 2024, when the Bluebird Movement emerged in response to controversial legislative amendments pushed through by the KMT-TPP parliamentary majority. Tens of thousands of protesters took to the streets, arguing that the reforms threatened democratic checks and balances. The intense partisan polarization also led to legislative gridlock, complicating policymaking and highlighting the risks of governance dominated by unilateral opposition control.

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

Moreover, the political system is sufficiently open to allow direct political participation by civil society through the creation of new parties, such as those formed out of activist groups from the 2014 Sunflower protest movement. Most notably, the New Power Party (NPP) won five of 113 parliamentary seats in the 2016 parliamentary elections, one seat in 2020 and about 1.5% of the popular vote in the 2022 local elections. However, it failed to win seats in the 2024 legislative polls.

The government sponsors regular meetings with civil society leaders and invites them to national conferences on specific problems related to economic and social development, environmental protection and educational reform. Since 2019, the government has followed an Open Government Action Plan to enhance transparency, accountability, and participation by enterprises and civil society organizations in government. Civil society also played a crucial role in countering disinformation during the 2024 elections, engaging in fact-checking and public awareness campaigns to protect Taiwan's democratic processes. The Ministry of Economic Affairs consulted NGOs and business leaders in 2024 to draft corporate governance guidelines emphasizing human rights in supply chains. Additionally, large-scale public mobilizations – such as the Bluebird Movement in May 2024 – demonstrated how civil society actively influences legislative decisions. Since 2020, the Legislative Yuan has followed an Open Parliament Action Plan to reinforce transparency and civic engagement in governance. 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 instituted the participation of lay judges in criminal trials. At the same time, ideological polarization continues to divide many movements and groups, making it difficult for politicians from rival camps to discuss issues peacefully.



The conflict between Mainlanders and Taiwanese (culminating in the “228 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 of the 1950s and 1960s were addressed in the 1990s and 2000s. Nonetheless, remembrance of “228” remains strong, and there are regular public memorials for the victims of Taiwan’s authoritarian past and calls for transitional justice. Supported by academics and vocal civil society activists, reconciliation and transitional justice remain on the political agenda for the DPP, which evolved out of the anti-KMT movement in the 1980s.

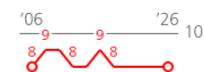
Most institutional steps toward transitional justice – including the passage of several legal acts promoting investigations into the authoritarian era and the 2017 establishment of a cabinet-level, temporary Transitional Justice Commission (TJC) – had already been taken early in President Tsai’s first term. Although the TJC was rocked by scandals in its first year and its work was criticized by the KMT as a political instrument to weaken the opposition party, it addressed a range of historical injustices until its dissolution in May 2022. Its activities included collecting and disseminating information on victims of authoritarian rule, overturning court-martial cases, compensating victims of the White Terror, and conducting inquiries into the huge array of assets the KMT accumulated during the martial law period. Even after the commission’s dissolution, the DPP government continued transitional justice measures as part of a broad human rights-promoting policy. Functions previously carried out by the TJC were assigned to various ministries and government agencies. The Ministry of Health and Welfare, for instance, was charged with organizing psychological trauma treatment for White Terror victims and their families. The Ministries of Education and Justice established programs to strengthen human rights education in schools.

Transitional justice efforts during the review period included financial compensation, annulments of judgments issued during the martial law era, and efforts to enhance public awareness and transparency about the authoritarian past. In February 2023, for instance, Taiwan approved \$1.22 million in reparations for victims of political persecution during the authoritarian era. The Ministry of Justice announced plans to overturn the wrongful convictions of 420 individuals. In July 2023, Taiwan’s Executive Yuan mandated transitional justice education for civil servants, including judicial, police and military personnel. In February 2024, the National Archives Administration began declassifying thousands of political archives from the martial law era and beyond, following amendments to the Political Archives Act, stating that disclosure of historical archives formed the foundation of transitional justice.

Civil society activists’ repeated demands to remove the remaining symbols of Taiwan’s authoritarian past from the public sphere – including removing all remaining statues of former dictator Chiang Kai-shek from public spaces, designing new banknotes without his portrait and renaming Chiang Kai-shek Memorial Hall –

Reconciliation

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were not pursued during the review period. However, in 2024 the Ministry of Culture announced the removal of military honor guards from the memorial. The DPP government also faces pressure from groups representing Taiwanese Indigenous people, who contend that their demands for adequate reparations for historical injustices, especially the loss of land, have not been sufficiently addressed.

17 | International Cooperation

Like Singapore and South Korea, Taiwan is an industrialized, high-income country with a level of human development comparable to most Western European countries. International assistance or support therefore carries a different meaning. Taiwan is, in fact, a provider of international assistance, though only a few countries have established diplomatic relations with it or are willing to accept ODA-like support from Taipei due to fear of Beijing's retribution. For Taiwan, international assistance means political support and economic cooperation, both of which can be used 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 banning the country's access to all international organizations based on the principle of national sovereignty. Even before the COVID-19 pandemic began, for instance, Taiwan repeatedly sought the right to participate in the World Health Organization (WHO) and the World Health Assembly (WHA), but its requests were declined due to pressure from China. 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 levels of credibility and reliability in implementing necessary market reforms. Since its accession in 2002, Taiwan has integrated smoothly into the World Trade Organization (WTO) framework to facilitate global trade. It implements WTO rules effectively.

Efforts by the previous KMT government to enlarge Taiwan's "international space" through conciliatory cross-strait policies largely failed to persuade Beijing to change its stance. Since the DPP government took office in 2016, China has effectively frozen cross-strait relations and further ramped up pressure on partner countries to sever diplomatic relations with Taipei. The review period saw the number of Taiwan's formal diplomatic allies dwindle further, with Honduras and Nauru severing diplomatic ties with Taiwan to establish formal relations with China. As of January 2025, only 12 countries maintain official diplomatic relations with Taiwan – mainly island nations in the Pacific and small countries in the Caribbean and Central America that are heavily reliant on foreign aid – as well as the Holy See. In sum, 10 countries have switched official diplomatic recognition from Taiwan to China since 2016, mainly in response to Beijing's offers of financial aid.

Effective use of support

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Within these constraints, Taiwan continued to make the most of and deepen its ties with official and unofficial allies. The relationship with the United States, Taiwan's most important international partner, remained strong and stable in the second half of the Biden presidency. U.S. President Joe Biden repeatedly affirmed that the United States would defend Taiwan in the event of a Chinese attack, while other signs of the relationship included arms sales to modernize Taiwan's armed forces; an expansion of defense cooperation; high-profile visits by U.S. members of Congress; and inclusion of Taiwan in U.S. multilateral political initiatives such as Biden's March 2024 Summit for Democracy, where Taiwan's minister of digital affairs, Audrey Tang, represented Taiwan via a video message. Taiwan also continues to apply for membership in international organizations, drawing on support from partner countries. In November 2024, for instance, more than 70 countries advocated Taiwan's inclusion in Interpol, emphasizing Taiwan's ability to contribute to global law enforcement and combat transnational crime.

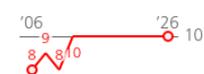
Because China blocks Taiwan's entry into most international and regional organizations and bodies that require state capacity, it is particularly important for Taiwan to demonstrate credibility, reliability and generosity in the international arena. By convincing the world's public that it has a rightful claim to sovereignty and that its diplomatic isolation deprives the international community of the full use of Taiwan's expertise and financial might, Taiwan enjoys a good reputation as a political partner and an engaged donor of development aid and humanitarian assistance.

For instance, in 2023 and 2024, Taiwan was among the top five Indo-Pacific nations providing aid to Ukraine, with a focus on health care, reconstruction and energy support. It also launched an NGO Fellowship Program to train civil society leaders from South and Southeast Asia, enhancing regional capacities to address inequality and advance human rights. In August 2024, Taiwan delivered protective equipment to Haiti's security forces, aiding efforts to combat gang-related violence.

Under President Tsai's predecessor, Ma Ying-jeou, Taiwan abandoned "dollar diplomacy" as a means of trading financial support for international recognition, both because of its low effectiveness in the face of China's expansive lending and foreign investment strategy and because of severe domestic public criticism. This has led to a 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 and rose further during the review period, with China intensifying its attempts to limit Taiwan's international space, putting pressure on Taiwan and its international allies.

Credibility

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Taiwan is involved in complex territorial disputes with neighboring China and Southeast Asian countries over control of the uninhabited Spratly and Paracel Archipelagos in the South China Sea, which are rich in fish, petroleum and natural gas. 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 instead foster cooperation with Taiwan's neighbors in the Asia-Pacific region, primarily the ASEAN nations along with Australia and New Zealand. Its main instruments are promoting economic collaboration; facilitating two-way exchanges of qualified workers; increasing cooperation across sectors, including tourism, technology and business; and strengthening Taiwan's bilateral and multilateral regional integration. To further strengthen its economic integration, Taiwan officially applied in September 2021 to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). While this did not take place during the review period, in November 2024 Taiwan's minister of foreign affairs reaffirmed the government's commitment to joining the trade pact, emphasizing Taiwan's economic contributions, the legal reforms it had made to meet membership requirements, and the need for fair consideration of its application amid global supply chain shifts and trade security concerns.

The main issue shaping Taiwan's international cooperation remains its relationship with mainland China, which continued to deteriorate during the review period. Throughout the review period, Chinese President Xi Jinping repeatedly stated his goal of unifying Taiwan with the mainland, if necessary by military force. The Chinese People's Liberation Army (PLA) further increased its military operations around Taiwan. By early 2025, Chinese military ships, airplanes and drones were operating in Taiwanese territory daily, and the PLA was regularly conducting military exercises and patrols in the Taiwan Strait. After Lai's inauguration, for instance, the Chinese military staged large-scale air and sea drills around Taiwan, describing them as a "stern warning" and "punishment" for what Beijing considers Lai's "separatist acts." China also continues to exert increasing economic pressure on Taiwan's businesses by restricting access for Taiwanese firms and banning agricultural imports.

Consequently, expanding the scope of Taiwan's international cooperation and integration has been a core political goal of all administrations. Acting within the limits imposed by Beijing's refusal to allow Taiwan to participate in international political organizations, Taiwan is a strong advocate of and a reliable participant in regional and international organizations, including the Asian Development Bank (ADB), the Asia-Pacific Economic Cooperation (APEC) and the WTO (though not under the name "Taiwan" or its official state name of "Republic of China").

Furthermore, in the face of increasing pressure from China and deteriorating relations between Beijing and many Asian and Western nations during the review period, Taiwan has continued to deepen existing political ties with its official and unofficial

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allies. While the Legislative Yuan's Congressional Diplomacy and Strategy Consensus Committee was not reinstated following the January 2024 elections, Taiwan's legislature has maintained robust parliamentary diplomacy and outreach throughout the review period. In addition, Taiwan has continued to bolster already close ties in specific policy fields with the United States and regional partners such as Japan and Australia. In May 2024, for instance, Taiwan and Australia signed a science and technology cooperation agreement, focusing on research collaboration and talent exchange in key areas such as information technology, semiconductors, biotechnology and the net-zero transition. During the review period, Taiwan continued to strengthen its ties with European countries. In March 2023, for instance, Taiwan signed a mutual legal assistance agreement with Germany to enhance bilateral cooperation in criminal investigations, extradition proceedings and judicial matters, marking Taiwan's seventh such pact with a European country. Taiwan has also continued to support sanctions on Russia and to provide aid to Ukraine despite not maintaining official diplomatic relations, especially in the areas of health care, social services, reconstruction and infrastructure. Finally, the island country aims to improve its international status through "soft power" cultural initiatives such as setting up Mandarin-language training centers in partner countries as a counterweight to the mainland's Confucius Institutes.

Strategic Outlook

Externally, cross-strait relations will continue to dominate Taiwan's political, social and economic development in the coming years. The objectives sought by China and Taiwan remain fundamentally incompatible: Beijing seeks eventual unification, through military coercion if necessary, while Taiwan is determined to maintain its sovereignty. This contradiction makes the Taiwan Strait a persistent hot spot in regional security and a potential flashpoint for U.S.-China conflict. In this context, it is unlikely that relations between Taiwan and China will improve unless drastic changes occur in Beijing; much will thus depend on factors beyond the control of Taiwan's decision-makers.

China considers the "Taiwan question" to be a matter of national priority, with its significance likely to grow as Beijing faces domestic crises or increasing tensions with the United States. U.S. officials have repeatedly expressed concerns that the Chinese People's Liberation Army (PLA) might be ready to attempt an invasion by 2027. Even if Beijing refrains from direct military action, it will continue to exert pressure on Taiwan through military maneuvers, cyberattacks, intelligence operations and influence campaigns designed to spread misinformation and heighten polarization. Additionally, China is expected to escalate diplomatic coercion, pressuring Taiwan's remaining formal allies to sever ties.

Taiwan's relationship with the United States remains its most crucial external partnership, but the new Donald Trump administration's confrontational and transactional approach to foreign and trade policies introduces uncertainty. While U.S. Secretary of State Marco Rubio reaffirmed bipartisan U.S. support for Taiwan in early 2025, Trump's threats of a 100% tariff on chip imports into the United States – including those from Taiwan – have raised concerns about the administration's long-term commitment. The greatest risk for Taiwan would be if Washington were to use Taiwan's de facto sovereignty as a bargaining chip in negotiations with Beijing.

Given its limited room for unilateral action in foreign affairs, Taiwan's best strategy is to continue to raise awareness of its beleaguered position and China's aggressive stance, and to diversify its economic ties and strengthen political relationships with democratic allies in Europe and the Asia-Pacific, as well as with international organizations. President Lai has broad authority over foreign policy, but implementing his agenda – particularly with regard to defense policy – will require support from the opposition-controlled legislature.

Domestically, the sweeping cuts imposed by the Legislative Yuan on the 2025 budget – including a 50% reduction in funding for Taiwan's homegrown submarine program – and controversial changes to the Constitutional Court underscore the challenges of Taiwan's divided government. With the Kuomintang (KMT) and Taiwan People's Party (TPP) holding a legislative majority, President Lai faces a fragmented opposition that could obstruct his administration's ability to govern effectively.

A key concern is the KMT's ongoing engagement with Beijing, as Chinese officials have actively courted KMT legislators, raising fears of a disloyal opposition that may seek to realign Taiwan's policies with China's strategic interests. This could lead to increased domestic tensions, particularly if the legislature continues to block government efforts to strengthen Taiwan's defense or deepen relations with international partners. Meanwhile, the TPP, once seen as a viable alternative to the two dominant parties, has been weakened by the corruption scandal surrounding its founder and former chairman, Ko Wen-je. This has not only damaged the party's credibility but also hindered its ability to function as a stabilizing force in the legislature. The extent to which the new TPP leadership prioritizes cooperation over political maneuvering will be crucial for Taiwan's legislative effectiveness.

Without compromise between Taiwan's major political forces, legislative gridlock could persist until at least the 2026 local elections – or even the 2028 general elections. Prolonged stagnation may fuel public frustration, deepening polarization and disillusionment with Taiwan's political system. This, in turn, could strengthen populist movements, destabilize democratic institutions and create further openings for Chinese influence operations in the years ahead.