

BTI 2016 | Taiwan Country Report

	scale	score	rank	trend
Status Index	1-10	9.53	# 1 of 129	
Political Transformation	1-10	9.55	# 3 of 129	➔
Economic Transformation	1-10	9.50	# 1 of 129	➔
Management Index	1-10	7.48	# 3 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	23.4	HDI	-	GDP p.c., PPP \$	46035.8
Pop. growth ¹	% p.a.	0.3	HDI rank of 187	-	Gini Index	33.4
Life expectancy	years	79.7	UN Education Index	-	Poverty ³	% -
Urban population	%	60.3	Gender inequality ²	-	Aid per capita	\$ -

Sources (as of October 2015): International Monetary Fund (IMF), World Economic Outlook, October 2015 | Asian Development Bank (ADB), Key Indicators for Asia and the Pacific 2015. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Throughout the period under review, Taiwan has remained a high performer in terms of democratic politics and liberal market policies. It continues to enjoy a high degree of stateness, meaningful elections, the absence of undemocratic veto actors, stable democratic institutions and a vibrant civil society. The judiciary is still a weak point, as there are concerns over politically biased judges in high-profile cases and the politically driven selection of high-level court personnel. Nevertheless, there exists a broad consensus within society that the country's legal institutions operate reasonably well. The 2012 parliamentary and presidential elections paved the way for the second Ma administration leading to much political polarization as the DPP (Democratic Progressive Party) and a re-politicized civil society targeted the KMT's (Kuomintang of China) China policy ferociously, decrying Taiwan's sellout in terms of sovereignty and economic well-being. The controversy over the ratification of a Cross-Strait Trade in Services Agreement (CSTSA) led to a widely reported three-week occupation of Taiwan's Legislative Yuan and the streets nearby by students and social activists in March and April 2014 and the formation of what has since been called the "Sunflower Movement." As a consequence, the ratification of the CSTSA has been stalled and negotiations between Taiwan and China on a Trade in Goods Agreement have been put on the back-burner and will probably not make any progress before the 2016 presidential elections. Meanwhile, the DPP prepares for a return to power and is struggling to carve out a China policy approach that both satisfies its independent-minded domestic constituencies and Beijing's uncompromising stance that to qualify for cross-strait negotiations any Taiwan government must support the "1992 consensus" and the "one China" principle. The DPP walks a tightrope, as it must come to terms with a changing cross-strait relationship determined as much by official policy-making as by sub-official cross-strait migration, social integration on the one hand and its identity as the party of Taiwan independence on the other. The KMT, for its part, was severely punished in local elections held in late November 2014 for its (perceived) high-handedness in domestic politics and cross-strait relations, resulting in president Ma Ying-jeou's renunciation of

the KMT party chair and a clear opening for the opposition to win the upcoming 2016 presidential and parliamentary elections.

Economically, Taiwan did well in the review period, with solid GDP growth of 2.2 and 3.5% in 2013 and 2014 respectively. In spite of rather weak global demand, Taiwan's exports increased moderately by 1.4% (2013) and 2.7% (2014) with lower inflation rates than in the previous report (0.8 in 2013; 1.2% in 2014). Unemployment amounted to less than 4% in 2014. Taiwan's financial sector has been solid, albeit a number of unsolved structural problems concerning overcrowding with banks and institutional fragmentation. Taiwan has also been accredited high scores for its international competitiveness and market-friendly politics though its economic exposure to China remains a concern for many observers. Meanwhile, Taiwanese capital is still flowing to China as the country's future competitiveness hinges substantially on the capability of Taiwan's entrepreneurs to partake in the increasing globalization of the Chinese economy.

History and Characteristics of Transformation

In Taiwan, political transformation has long taken a backseat to economic transformation. The foundations of a sound market economy were laid in the 1950s under the authoritarian leadership of Chiang Kai-shek. During that time, the state intervened with a strong hand in economic affairs, regulating and protecting domestic markets. In the four decades of authoritarian rule that followed the Chinese Civil War in 1949, Taiwan moved gradually toward a social market economy and established rudimentary social insurance systems. Democratic transition began with the illegal founding of the DPP on 28 September 1986 – a move tolerated at the time by the ruling KMT regime – and the lifting of martial law on 14 July 1987. More reforms followed, most importantly the legalization of new political parties in January 1991. In 1991 and 1992 respectively, Taiwan saw free elections to its central parliamentary bodies, the National Assembly and the Legislative Yuan, for the first time, marking the end of the transition process. During the 1990s, democracy matured by successive constitutional reforms that, along with other changes to Taiwan's political system, paved the way for the first direct presidential election in early 1996. The incumbent president and KMT party leader Lee Teng-hui won this election and gained himself the epithet of Taiwan's "father of democracy." Successful democratic consolidation had already been achieved when Chen Shui-bian, an experienced DPP politician and stout advocate of Taiwanese independence, unexpectedly won the March 2000 presidential election and made the KMT an opposition party for the first time since 1949. The following eight years were dogged by severe legislative inefficiency as the partisan conflict between the ruling DPP and the KMT-led opposition, which commanded a majority in parliament, paralyzed the political process. Cross-strait relations further soured as the new president pursued an agenda of assuring Taiwanese sovereignty against Beijing's "one China principle" and pushed for a referendum law and a new constitution. Politically paralyzed and delegitimized by corruption charges against himself, a number of family members and close advisors, Chen Shui-bian became a "lame duck" toward the end of his second administration and caused the DPP dramatic losses in the 2008 parliamentary

and presidential elections. The KMT returned to power under President Ma Ying-jeou, who governed the Legislative Yuan with a two-thirds majority. The Ma administration immediately embarked on a pro-active China policy by restarting cross-strait negotiations, which have so far produced more than 20 accords signed between Taipei and Beijing, including the establishment of direct trade, transport and communication links across the Taiwan Strait, a quasi-free trade agreement (Economic Cooperation Framework Agreement/EFCA), and a Cross-Strait Trade in Services Agreement (CSTSA). The latter, however, has not yet been ratified due to strong political and civil society opposition. Relations between Taiwan and China have become more stable after 2008, a major factor to ensure the incumbent KMT government re-election in the January 2012 presidential ballot. However, the sovereignty dispute between Taipei and Beijing remains unresolved and China's military threat continues unabated. Increasing economic integration across the Taiwan Strait is supposed to be beneficial to the growth of the Taiwanese economy though there is also the danger that Taiwan's rising economic dependence on the Chinese mainland can be used for political blackmail by Beijing. The current government's pro-integration policies have been increasingly questioned by younger Taiwanese who went to the streets in March and April 2014 to fight the CSTSA. They occupied the Legislative Yuan and brought about what has been called the Sunflower Movement. They demonstrated their mistrust of the KMT government's ability and will to safeguard Taiwan's interests vis-à-vis China, and demanded more transparency in cross-Strait talks. For these and other reasons, the KMT was routed in the 9-in-1 local elections held in late November 2014. In political terms, the Taiwanese overwhelmingly opt for the maintenance of the status quo in the Taiwan Strait and uncompromisingly stick to Taiwan's de facto sovereignty, if not de jure independence. Nevertheless, the majority of the Taiwan people are ready for further measures to develop and institutionalize cross-strait interaction and integration, as long as Taiwan's sovereignty is protected and the island not forced into political submission to China.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

The conflict over Taiwan's political future as an independent nation-state or as part of a new and unified China remains to be resolved. The large majority of Taiwanese support the status quo in the Taiwan Strait, which best serves their security interests. However, most surveys show that Taiwanese national identity has been strengthening steadily since the early 1990s, deepening the people's identification with their state and their desire for sovereignty. This trend has strengthened even after the KMT retook the government from the DPP in 2008 and initiated a new dialogue with the Beijing authorities, resulting in more stable cross-strait relations, more intensive economic interaction, and more people-to-people exchange. In fact, the struggle for Taiwan's national identity has been replaced by a struggle for a reasonable China policy approach, which helps both to safeguard the state's sovereignty and nation's future well-being.

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

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

Question
Score

Monopoly on the
use of force
10

State identity
10

No interference of
religious dogmas
10

Basic
administration
10

2 | Political Participation

All relevant political offices are subject to competition in regular, universal and secret multi-party elections which are usually undisputed and are widely covered by the media. There are no restraints on the electoral process, which is fair and transparent. Vote buying (attracting voters with small gifts, free lunchboxes and small amounts of money given as a “token of appreciation” that has come to be expected by most voters in sub-urban and rural districts) in local elections is still rampant and has so far weathered all legal action. Ironically, it does not jeopardize the fairness of elections very much. It is a culturally embedded practice with no guarantee of high returns on a candidate’s investments. Put differently, vote buying does not secure election success, but success is most insecure if a candidate refuses a voter the “expected appreciation.”

Free and fair elections

10

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

Effective power to govern

10

Freedoms of association and assembly are constitutionally guaranteed, generally unrestricted and extensively exercised. The right to strike is established by law. The harsh police treatment of student protestors who occupied the Executive Yuan in March 2014 and were expelled shortly thereafter was severely criticized by domestic and international observers alike. However, this event did not trigger a debate on, or even retrenchments of Taiwan’s constitutionally guaranteed association and assembly rights. Civic pressure on the government to reform a number of critical articles in the notorious Assembly and Parade Act, which has been sharply criticized by Amnesty International for some years, has risen again in the wake of the so called Sunflower Movement and the unexpected police violence against students in March 2014.

Association / assembly rights

10

Freedom of opinion and freedom of the press are well established and are exercised unrestrictedly, with vigorous and diverse reporting on government policies and alleged official wrongdoing. There are no clear instances of systematic media harassment or violence against reporters. However, worries about an increasing media concentration in the hands of tycoons with large-scale business interests in China, to the detriment of objective reporting and press freedom, have continued during the review period. Also, there are many stories about the censorship of critical news reporting on China in those media outlets controlled by Taiwanese entrepreneurs operating on the mainland. An Anti-Media-Monopoly Act was drafted by the National Communications Commission (NCC) in February 2013 and formally approved by the Executive Yuan two months later, but has not yet been passed by Taiwan’s legislature. It is aimed at, inter alia, reforms of the regulatory structure, the

Freedom of expression

9

relationship of media distributors and content producers, and the definition of what is considered a media monopoly. Moreover, the draft law contains a regulation on the development of public service broadcasting, which is heavily underfinanced and has had limited impact on Taiwan's vigorous media market so far. Taiwan's Internet is free and up to date. There has been no official attempt to block websites that are critical of government policy.

Freedom House has continuously ranked Taiwan as a free country over the last several years, with 1 out of 7 for political rights and 2 out of 7 for civil liberties in 2013 and 2014 respectively. However, it has slipped to rank 51 (from 47 in 2013 and 50 in 2014) among 180 nations listed in the 2015 Press Freedom Index, reflecting international concerns regarding the future of Taiwan's media freedom. The Taipei City Police Department's plans to introduce new regulations for reporters who cover mass demonstrations caused an uproar in early 2015 but have not yet been seriously debated by the city government.

3 | Rule of Law

The separation of powers into executive, legislative and judicial branches is well established and there is no extralegal execution of governmental power. The government system is structurally handicapped by the constitutional relationship between the president and parliament in times of divided government: While the popularly elected president appoints the head of the Executive Yuan (the premier) without the consent of parliament (the Legislative Yuan), the latter has the authority to dismiss the cabinet by a vote of no confidence against the premier. Since the president can dissolve the legislature in such a case, the powers of the parliament are limited and there are almost no institutional guards against political stalemate in cases of divided government (i.e., when the president and the legislative majority belong to different parties).

Domestic debate on constitutional reforms to introduce a parliamentary system has gained momentum since late 2014 after local elections brought heavy losses to the ruling KMT, suggesting a return to power of the DPP in the 2016 presidential elections and, hence, a new period of divided government (as between 2000 and 2008). As the time of this writing, there appears to be an inter-party consensus on the necessity to make the head of government fully responsible to parliament in order to overcome the inefficiency and shaky legitimacy of Taiwan's legislative process.

Separation of
powers
10

Judicial independence is well established in Taiwan and court trials are generally fair. On various occasions, the DPP opposition has accused Taiwan's courts of being too closely allied with the KMT government, engaging in the "political persecution" of former president Chen Shui-bian (who was temporarily released from prison on medical parole in early January 2015) and being susceptible to KMT backstage pressure. However, so far, this has not been substantiated by legally relevant evidence. Civil society groups leaning towards the DPP-led "pan green" camp have supported this criticism at various occasions.

Independent
judiciary
10

A range of sunshine laws regulate political donations, declarations of income for public servants and the rules for political lobbying. Political corruption receives a great deal of attention in the mass media. It is an important issue on the platforms of all relevant political parties, and is prosecuted rigorously under criminal law. An official Agency Against Corruption was established in June 2011, mimicking similar institutions in Hong Kong and Singapore. Vote buying in local elections remains a problem in Taiwan as it is established practice since the early days of democratization and regarded as inevitable by most politicians. However, the judiciary is prosecuting vote-buying activities and punishes those found guilty.

Prosecution of
office abuse
10

Taiwan enjoys a very good human rights record according to all relevant international observer groups and there are no reports of unlawful or arbitrary use of state power against the population or any specific minority. Civil rights are constitutionally guaranteed and well protected, and those who violate them are taken to court. The judicial system provides ample opportunities to seek redress for rights violations. Court trials follow due process and there are no reports of physical abuse of prisoners. The police largely respect the ban on arbitrary detention, and attorneys are usually allowed to monitor interrogation to prevent abuses.

Civil rights
10

Improvements in Taiwan's immigration policy have been made concerning the legal position of its 340,000 mainland spouses, most notably concerning their resident status and their employment possibilities. Taiwan's 530,000 migrant workers, for their part, are covered by the provisions of the Labor Standards Law, though they are currently limited to employment as industrial laborers, marine workers and household caretakers. On the negative side, Taiwan adheres to the death penalty against all domestic and international protest with the government regularly citing opinion surveys to prove that a majority of the populace supports such punishment.

4 | Stability of Democratic Institutions

All government institutions are democratically legitimized, work according to legal procedures and are sufficiently controlled by a working system of mutual checks and balances. Since inter-party coalition building has yet to be exercised and the government lacks a solid political culture of compromise, the existing semi-presidential system is prone to deadlock in times of divided government. But even if the president belongs to the majority party in Taiwan's Legislative Yuan, as has been the case since the KMT's return to power in 2008, lawmaking efficiency is rather low. Parliamentary politics conducted in the context of a zero-sum mentality lead to high levels of friction that hamper the legislative process and often entail political deadlock. The recent debate on introducing a parliamentary system is reasonable; this would bring more pressure to Taiwan's polarized party system to engage in consensus building and political compromise.

Performance of democratic institutions

9

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

Commitment to democratic institutions

10

5 | Political and Social Integration

The party system is stable, socially anchored and enjoys broad popular support. Diverging opinions within popular and societal interests are reflected and aggregated reasonably well. The system still suffers from polarization, as the two opposing party alliances (the "blue camp" of KMT, People's First Party (PFP) and New Party (NP) and the "green camp" of DPP and the Taiwan Solidarity Union (TSU)) take contending stances on Taiwan's China policy and the future possibility of unification with the Chinese mainland. During the second Ma administration, inaugurated in 2012, the domestic confrontation between both sides concerning the negotiation of new cross-strait trade agreements worsened, in accordance with widespread uneasiness in Taiwanese society that increasing economic integration across the Taiwan Strait makes Taiwan susceptible to political blackmail by China. At the same time, however, the two party camps do not diverge very much when it comes to other substantive policy fields such as environmental protection, social welfare and industrial upgrading.

Party system

8

The DPP struggles with a new China strategy that many in the Party think is necessary to make Beijing talk to a possible DPP government after the 2016 presidential elections. Efforts to initiate a cross-party dialogue on Taiwan's best approach to a rising China have been futile although both the KMT and the DPP acknowledge that Taiwan must engage China to safeguard its own economic prosperity and social well-being.

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

Interest groups
9

However, parts of Taiwan's civil society remain focused on ideological issues related to cross-strait policy and the unification/independence split, sometimes resulting in factional strife and public clashes. This became highly visible during the "Sunflower Student Movement" in March and April 2014 by which the whole kaleidoscope of independence-leaning organizations mobilized in support of the students' fight against the ratification of the Cross-Strait Trades in Services Agreement.

Voter turnout, which lies between 60% and 80% for national and local elections, suggests strong citizen consent to democracy. The latest survey data for Taiwan stemming from the Asian Barometer Project (2010) confirm consent to democracy by the majority of Taiwanese: 51% hold that democracy is preferable to any other form of government while 24% think that under some circumstances an authoritarian system might be better. More than 73% think that elections make the government pay attention to what the people think, while 23% believe that this is not the case. However, there is also much skepticism concerning the efficiency and trustworthiness of Taiwan's democratic institutions. For example, 51% do not trust their government very much while only 30% confirms to have quite a lot of trust. Regarding Taiwan's parliament, almost 74% express very little or no trust at all in the legislature, while only 19% confirm quite some or even a great deal of trust.

Approval of
democracy
8

The occupation of Taiwan's Legislative Yuan in spring 2014 highlighted the high degree of alienation from that institution on the part of many people who are critical of the government's China policy. One of the issues most fiercely debated during the time was the so-called high jacking of the parliament by the KMT caucus by allegedly not honoring an earlier promise made to the opposition with respect to the screening of a controversial trade agreement with China. The standoff between the parties in the legislature, which spilled over into the three-week long occupation and partly violent demonstrations in the streets near the Legislative Yuan, was the climax of what has been called a constitutional crisis at various occasions by political observers. This conflict has caused widespread worries about the stability of the "democratic consensus" in Taiwan and the respect for the countries' democratic institutions, though there are so far no indications that the occupation and its aftermath have seriously compromised either. As a matter of fact, Taiwan has returned to "normal politics" since then, focusing on the 2016 parliamentary and presidential elections as the arena to decide about the country's future policy direction vis-à-vis China, confirming the assessment that even in terms of highly polarizing issues, democracy is the only game in town.

Generally speaking, social self-organization is well developed in Taiwan. A variety of organizations, including an outspoken environmental movement, social groups and lively religious communities, are the backbone of Taiwan's democracy. They create a climate of tolerance and a culture of non-violence and democratic deliberation. Based on the latest 2006 World Value Survey data for Taiwan, interpersonal trust is fairly high when compared with other new democracies.

Social capital
9

However, social tensions over national identity and Taiwan's political status (the independence/unification divide) within the political elites and civil society have again increased over recent years as a consequence of the current government's China policy of promoting systematic economic and social integration across the Taiwan Strait. This has contributed to more ideological polarization within society than there was in the early years of the Ma administration, pointing at the limits of its integration strategy and running the danger of negatively impacting social trust as well.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Taiwan is a highly developed market economy. The country's level of socioeconomic development permits adequate freedom of choice for all citizens. Fundamental social exclusion due to poverty, gender, religion or ethnicity is qualitatively minor to non-existent and is not structurally embedded. Taiwan's poverty rate is low in international comparison and stands at 1.5 % according to the latest available data. Income distribution – as measured by the Gini coefficient – is relatively equal and again has slightly ameliorated during the review period (0.342 in 2011; 0.338 in 2012; 0.336 in 2013). This trend, however, stands in contrast to an increasing domestic debate on rising social inequality in Taiwan caused by stagnant wages and highlighted by their shrinking share of Taiwan's GDP. Taiwan ranked 21th globally in the Human Development Report 2014 according to HDI methodology, with a value of 0.882 trailing only Japan, South Korea and Hong Kong in Asia.

Socioeconomic
barriers
9

The most socially excluded group is Taiwan's 550,000 strong foreign worker community, which suffers from low salaries and social discrimination, but also enjoys increasing support from civic groups and social organizations. A major problem is the dependence of foreign workers, who are mainly coming from Southeast Asian countries, on private brokerage agencies in Taiwan, which depress their salaries by taking huge commissions. This results in many of them leaving their commissioned jobs very quickly to find better illegal work. The government has announced an end to this practice but there are no indications that checking on migrant agencies more seriously will encourage the fair treatment of foreign workers.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	375787.0	446141.0	511279.0	529597.0
GDP growth	%	5.4	10.6	2.2	3.8
Inflation (CPI)	%	2.3	1.0	0.8	1.2
Unemployment	%	4.1	5.2	4.2	4.0
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	6.3	25.6	3.6	5.5
Import growth	%	3.2	27.8	4.1	5.2
Current account balance	\$ M	17578.0	39872.0	55309.0	65417.0
Public debt	% of GDP	33.9	36.7	39.1	37.9
External debt	\$ M	86732.0	101581.0	170134.0	177945.0
Total debt service	\$ M	11006.0	3630.0	7233.0	6540.0
Cash surplus or deficit	% of GDP	-0.3	-2.6	-1.0	-
Tax revenue	% of GDP	9.1	7.6	8.0	-
Government consumption	% of GDP	12.5	14.9	14.6	14.5
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.2	2.1	2.1	2.0

Sources (as of October 2015): International Monetary Fund (IMF), World Economic Outlook, October 2015 | Asian Development Bank (ADB), Key Indicators for Asia and the Pacific 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Taiwan's market economy is institutionally sound with clearly defined and state-guaranteed rules for ensuring fair competition and largely equal opportunities for all market participants. Business freedom is high and generally speaking, market actors face neither entry nor exit barriers. China's access to Taiwanese markets, which is politically contested on the island, has been continuously liberalized since the legalization of direct cross-strait trade in late 2008. Investment in a number of strategic sectors like LED, solar cells and display panels remain capped for mainland

Market-based
competition
9

investors at less than 50 percent. In non-strategic sectors of Taiwan's manufacturing industries, however, mainland Chinese capital can increase its ownership to more than 50%. The stalled Cross-Strait Trade in Services Agreement foresees, amongst other things, access for Chinese investment into Taiwan's sensitive telecommunications sector. There are plans to lower primary listing thresholds for foreign-registered companies using Chinese capital as long as Chinese capital is capped below 50% (it is currently at 30%).

Even though the state maintains its monopoly over certain basic utilities and services (e.g., electricity, water supply and postal services), market competition is well established and legal frameworks exist to combat cartels. The Fair Trade Law that took effect in 2002 ensures a coherent and effective approach to combating monopolistic structures or predatory price fixing. Taiwan ranked 18th out of 152 countries in the Economic Freedom of the World Annual Report 2014 (which cites 2012 figures) with a score of 7.71 out of 10, trailing only top-ranked (for Asia) Hong Kong and Singapore. It did particularly well in the categories of the size of government, sound money and credit market regulations. Though Taiwan fell one rank to 14th in the Global Competitiveness Report 2014–2015 during the review period, it displayed a strong approach to market freedom and anti-monopoly policy.

Anti-monopoly
policy
10

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

Liberalization of
foreign trade
10

Some 40% of Taiwan's exports and more than 60% of its outbound investment have gone to the Chinese mainland over the last two decades, resulting in a high trade dependency on China, which has worried critical observers for quite some time. Cross-strait follow-up negotiations on the Economic Cooperation Framework Agreement (ECFA) signed in mid-2010 target further trade in services and goods liberalization across the Taiwan Strait, though there is strong opposition in Taiwan to push this process. Demands for more diversification of Taiwan's export economy are hard to fulfill as the government has only very limited influences on the flow of private capital and the Chinese market remains the most attractive destination for Taiwanese entrepreneurs.

Taiwan has a tightly regulated and transparent banking system which is effectively supervised by the Financial Supervisory Commission (FSC) and an independent central bank. The capital and stock market is reasonably developed and in principle open to foreign participation. Banks benefit from a high proportion of stable customer deposits and flexibility to access domestic capital markets. Also, the system's low use of cross-border funding makes it less vulnerable to contagion risks during periods of turbulences in global capital markets like the 2008/9 global financial crisis. The official non-performing loans (NPL) ratio was 0.25% at the end of 2014, decreasing substantially during the review period. The capital adequacy ratio of Taiwan's bank stood at 12.06% at the end of 2012 and 11.87% by the end of 2013, well above the regulatory requirement of 8%. Most analysts agree on the overall stability of Taiwan's banking system.

Banking system
9

On the negative side, the banking sector remains dominated by state-owned banks and is highly fragmented. Real estate-related loans account for an unhealthy 40% in the books of Taiwan's domestic banks. Overall profitability of the banking sector is low compared to global standards due to fierce competition and excessive liquidity. Moreover, the industry's rising exposure to China in terms of intensifying economic and financial links makes it more vulnerable to the uncertain development of the mainland economy, which is undergoing a structural change.

8 | Currency and Price Stability

Taiwan had low inflation levels during the review period with its consumer price index standing at 1.20% at the end of 2014 (compared to 1.93% in 2012 and 0.79% in 2013). The value of the New Taiwan Dollar (NTD) has remained stable and stood at 29.5 NTD against the U.S. dollar at the end of 2014 (compared to 29.6 NTD the year before). Taiwan's government and central bank pursue a prudent foreign exchange policy that has been consistently linked to the goal of financial and economic stability and steered the county rather well through the 2008/2009 global financial crisis and its aftermath. Taiwan's central bank is fully independent and enjoys one of the best reputations in Asia for its cautious and reliable interest rate policies.

Anti-inflation /
forex policy
10

Taiwan's public debt has increased over the review period from 39.5% of GDP in 2013 to a projected 40.1% at the end of 2014. Its external debt has decreased from 27.5% of GDP to 25.2% in 2013 and is projected to stand at 24.6% at the end of 2014. These figures are comparatively low by global and regional standards and must be seen against a long track record of prudent fiscal policymaking and resolute debt control as part of Taiwan's overall economic policy, suggesting effective crisis management and macroeconomic stability.

Macrostability
10

9 | Private Property

Taiwan's property rights regime is well established and enforced by the judiciary. However, land disputes have increased in recent years. The Dapu controversy, which started in 2010 when arable land was seized and razed in Dapu Village for the construction of an industrial complex, has shed much light on the problematic nexus between land speculation and the expropriation of villagers who face hard times when they choose to stand up against the authorities. The conflict also highlighted deficient implementation of compensation regulations and prompted people ask questions about the role of the judiciary in protecting property rights.

Property rights
10

Taiwan's economy is mainly based on small- and medium-sized private companies (some 1.3 million, around 97% of all companies according to 2013 figures), which are adequately protected by the state. The state continues to be directly involved in a number of "strategic" economic areas (shipbuilding, petroleum, steel, sugar, tobacco and liquor, banking, insurance and railway transport) and basic utilities (electricity, water supply, and postal services), in some cases holding the majority of shares. The eventual privatization of all residual SOEs has been expected for some time, but remains controversial because of economic considerations and regulatory difficulties.

Private enterprise
10

10 | Welfare Regime

With social welfare net expenditures accounting for 20% of the government budget and 3.6% of GDP in 2013, Taiwan has one of the most comprehensive and well-developed welfare regimes in Asia. The social safety net is close-knit and provides for substantial protection against poverty and other social risks. The state provides compulsory health insurance for all citizens, unemployment insurance, voluntary labor pension with portable retirement accounts, and mandatory coverage by a national pension scheme, including the unemployed, non-working spouses and freelancers. Financial support is also given to the disabled and disadvantaged households, including living cost allowances, health care and special subsidies. Moreover, amendments to the Public Assistance Act which came into force on 1 July 2011, stipulate the conditions of long and short-term assistance to lower and middle income households by providing living subsidies covering different areas of threatened well-being.

Social safety nets
9

Premiums for the national health care system are currently set at 4.91% of monthly salaries (since 1 January 2013). Civil Servants and employees in the private sector pay 30% of the set premiums with the rest shared by employers and the government. Military conscripts and low-income households do not need to pay; their premiums are fully paid by the government. A supplementary charge of 2% is placed on non-payroll income from stock dividends, interest earnings, rents and bonuses exceeding four months' salary. This is one of several measures introduced in early 2011 to balance the structural deficit that has plagued the national health care scheme for quite some time.

According to the constitution, all citizens are equal before the law “irrespective of sex, religion, race, class, or party affiliation.” Women’s rights have been continuously strengthened in recent years, with a focus on preventing and legally condemning domestic violence and sexual assault, but also on protecting women’s’ labor rights. A cabinet-level Department of Gender Equality was installed in 2012. The Gender Equality and Employment Act, which was amended in 2013, stipulates that the principle of equal pay for equal work must be respected, while adequate mechanisms to prevent sexual harassment are implemented in every workplace. Employees – both female and male – may apply for unpaid parental leave for up to two years in order to care for their children under the age of three. The act also ensures women the right to eight weeks of paid maternity leave. Taiwan would have ranked first in Asia and fifth in world according to the 2014 U.N. Gender Inequality Index (its calculated index value is 0.055, with a score of 1 meaning extreme gender inequality), trailing only Slovenia, Switzerland, Germany and Sweden.

In 2013, 50.5% of employees on payrolls were women, a significant increase during the review period. Also in 2013, women earned on average 18.5% less than men in the non-agricultural sector and only 25% of national legislators, senior officials and managers were women in that year. However, both percentages have been rising continuously over the years.

The biggest problem concerning gender equality is related to deeply entrenched cultural traditions, which has had an impact on the legal system. For instance, under Taiwan’s notorious adultery law, which was once set in place to protect women, the prosecution of “unfaithful women” has been increasing compared to men, who are hardly less “faithful.” There is also much pressure on women to waive their inheritance rights in favor of their male relatives, as according to traditional practice, only men can pass down property and the family name.

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

11 | Economic Performance

Taiwan's economy has done remarkably well during the review period with annual GDP growth of 2.23% in 2013 and 3.51% in 2014, against a background of a sluggish global (and mainland Chinese) economy. Exports grew by 1.41% and 2.74% in 2013 and 2014 respectively. The island republic's overall trade surplus stood at \$30.7 billion in 2013 and has been projected to amount to \$35.7 billion in 2014. Inflation has decreased to 0.8% in 2013 and was under control in spite of a moderate rise to over 1% in 2014.

Unemployment rates have further fallen and stood at 4.18% and 3.96% in 2013 and 2014 respectively, indicating a healthy labor market. Tax revenues totaled 12.6% of GDP at the end of 2013 and remained stable. The cash deficit, roughly mirroring the overall budget balance, has been reduced over the review period to -1.3% in 2013, though it may have risen to -2.0% in 2014. Taiwan's current account showed a solid surplus of \$57.4 billion in 2013.

Output strength
10

12 | Sustainability

Environmental awareness has been on the rise in Taiwan since the 1980s, mainly because of a strong social movement that pushed the government to make environmental protection a major concern in economic policy planning. Today, environmental protection is institutionally integrated at government level, both independently (by the Environmental Protection Administration or EPA) and at the subdivisional level within different government entities, resulting in systematic environmental policy planning and a decreasing externalization of costs over the years.

The development of green technologies and mechanisms for raising energy efficiency is an important part of the government's "Master Plan of Energy Conservation and Carbon Mitigation," which was approved in May 2010. Instruction on environmental protection in the public sector and in Taiwan's primary and secondary schools has been made mandatory by the Environmental Education Act, which passed in May 2010.

Actually, Taiwan has a quite sophisticated regulatory framework for environmental policy in place, and there is a broad consensus on the island that economic development must be ecologically sustainable. However, questions have since been raised by civil society about the state's capacity to guarantee normal security standards in Taiwan's three operating nuclear power plants.

Greenhouse gas emissions pose the most serious long-term problem for Taiwan's environmental performance. However, nuclear power plant safety and long-term

Environmental
policy
8

waste disposal have become even bigger public concerns since the “Fukushima incident” in Japan in early 2011. The construction of a fourth nuclear power plant in Gongliao halted immediately following the disaster due to massive social protests against nuclear energy production in Taiwan.

Taiwan ranked 46 out of 178 countries in the 2014 Environmental Performance Index (down from 29 in 2012). Despite the loss of 17 rank positions, the actual index value for Taiwan remained essentially the same (62.18 in 2014, compared to 62.23 in 2012).

The Index indicates positive achievements over the previous ten years in “greening” agriculture (reduction of subsidies and pesticide control), protecting biodiversity/habitat and health, while air quality deteriorated slightly over the same period.

Taiwan has a very well-developed education system with high-quality secondary and post-secondary education as well as vocational training, reflecting the importance given to education in a society still heavily imbued with Confucian values.

In 2013, the gross enrollment rate (6-21 years, including all levels of education) stood at 95.19% and for post-secondary education at 83.88%, which is high compared to international figures. School curricula undergo continuous reform to keep the education system in line with international developments, though it is very hard for Taiwan to do away with the tradition of rote learning at the primary and secondary level. On the other hand, Taiwanese pupils are regularly among those producing the highest test scores in the world, particularly in mathematics and science.

Compulsory tuition-free education has been extended from 9 to 12 years by 2014. Public expenditure for education stood at 2.97% of GDP in 2013, which is not particularly high in international comparison, given the fact that Taiwan is an industrialized nation in which a good education is of preeminent significance.

Overall expenditure on R&D stood at 3.06% of GDP in 2012, which is very high in comparison with international standards. It has the highest score among all transformation countries. The Taiwanese government manages 13 science parks spread out all over the island, which offer infrastructural hardware and services to high-tech firms. It focuses its resources on the development of cutting-edge technologies like nanoscience and nanotechnology, intelligent electronics, cloud computing, genomic medicine and biotechnology.

Education policy /
R&D
10

Transformation Management

I. Level of Difficulty

Taiwan enjoys few structural constraints on governance thanks to the following factors: its high level of socioeconomic development; its sound market economy and good economic performance; a well-developed education system and research environment; a well-qualified labor force; a capable bureaucratic apparatus; relatively low social disparities in terms of income and status; a lack of serious ethno-religious conflicts; and an unchallenged state monopoly on the use of force. Social movements and social interest organizations of all sorts are firmly embedded within society and play an essential part in the daily exercise of democracy, even if political polarization between state and society has increased in the review period as a result of the government's "pro China" policies.

Structural
constraints

2

However, Taiwan is handicapped by a high exposure to natural calamities, as typhoons and earthquakes hit the island every year and tax the government's administrative capabilities and financial resources. Taiwan's main structural constraint, its diplomatic isolation and China's de-facto veto power concerning its participation in the international community as a sovereign state, has been mitigated to some extent by cross-strait rapprochement since 2008. However, China's claim to sovereignty over Taiwan still significantly impedes the latter's self-determined management of international relations.

Taiwan's civic engagement has strengthened continuously since the end of the authoritarian era in the mid-1980s, when social movements played a major role in the transition to democracy and then contributed substantially to democratic consolidation. Today, Taiwan has one of the most vibrant civil societies in Asia, characterized by numerous NGOs engaged in all sorts of public activity. However, ideological polarization and division still play a role when issues of national identity and Taiwan's relationship to China are at stake, impacting negatively on the state-society relationship. The Sunflower Movement of March and April 2014 gave Taiwan's civil society a new push and, besides triggering the establishment of many new NGOs, revitalized Taiwan's "third force" discourse set against the established party camps.

Civil society
traditions

3

There is no politically motivated violence in Taiwan. The old conflict between mainlanders and native Taiwanese has evolved into a cleavage within society concerning Taiwan's future political relationship with China and the most sensible approach to secure sovereignty, long-term security and prosperity for the island republic. The ideological confrontation between those leaning towards Taiwanese independence and those favoring reconciliation with China (while maintaining Taiwan's sovereignty and de facto independence) has severely limited the efficiency of government institutions during the review period. The current government's China policy approach has lost support in the populace recently due to the opacity of cross-strait negotiations and a general attitude that too much economic integration that happens too quickly across the Taiwan Strait does more harm than good to the island's economy and security. In the last report, the optimistic assessment that deepening economic and social interaction between Taiwan and China would gradually reduce political polarization between the two sides must hence be relativized: the stand-off between pro-integration forces and their opponents has the potential to radicalize the political atmosphere further if not handled cautiously by the political leaders. This is not least shown in the isolated violence against protestors that occurred in March 2014, when riot police broke the student occupation of government buildings and displayed a degree of violence not known in Taiwan for many years.

Conflict intensity
3

II. Management Performance

14 | Steering Capability

In general, Taiwan's government sets strategic priorities and only rarely postpones them in favor of short-term political benefits. While policy prioritization is certainly one of the strengths of the current KMT government (especially when compared to the previous DPP government), its ability to implement carefully set strategic priorities is limited in the realm of foreign policy by China's de facto veto power, on the one hand, and China's increasingly important role in domestic politics on the other hand. Since there is no overarching consensus in society and among the political elite on Taiwan's China policy and national identity, domestic politics is conceived of as a zero-sum game between the opposing party camps. At the same time, politicians are very much driven by electoral competition and rarely think in terms of long-term policy objectives. Given Taiwan's system of government, this can lead to deadlock in times of divided government. When the president has a robust parliamentary majority, political prioritization and wide-ranging reforms are much easier. This has been shown in the significant changes in cross-strait relations following the KMT's return to power in mid-2008. However, the second Ma

Question
Score

Prioritization
8

administration has also illustrated that even a president supported by an absolute parliamentary majority can fail to carry his political agenda through in the face of resolute opposition within society, very much to the detriment of consistent government policies.

As Taiwan's market economy and democratic order are already well developed, any assessment concerning the implementation efficiency of the government's priority policies starts from an advanced vantage point. The current KMT government was able to speedily realize its most important political project to normalize cross-strait ties after regaining power in 2008, most notably by the establishment of direct links between China and Taiwan, and the signing of a quasi-free trade agreement with the PRC in 2010. After winning the 2012 legislative and presidential elections, the Ma administration first continued to pursue its agenda of deepening cross-strait dialogue and interaction. Since it dominated the legislature by an absolute majority, the ruling KMT could easily push through its national policies, most notably those concerning the cross-strait relationship. However, rising levels of political alienation on the part of the opposition party camp and substantial parts of the populace on the issue of the Cross-Strait Trade in Services Agreement have hampered the parliamentary process in early 2014 and made cross-strait policy implementation virtually impossible since the end of the Sunflower Movement in early spring 2014.

Implementation
9

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

Policy learning
9

By launching a new China policy in 2008, the current KMT government has not acted primarily for ideological reasons, but in response to increasing demands from society to facilitate access to mainland China's markets, help Taiwan's economy to globalize and ease cross-strait tensions. At the same time, it has been cautious enough to safeguard Taiwanese sovereignty by not giving in to Chinese demands to start talks on Taiwan's future political status. The Ma administration has also renounced, after a failed attempt, to push the Cross-Strait Trade in Services Agreement through the legislature after massive demonstrations and an occupation of the Legislative Yuan by an opposing student movement in the spring of 2014. The administration is now promising more dialogue and parliamentary oversight of cross-strait negotiations in the future. Similarly, the DPP's painful losses in the 2008 and 2012 national elections have prompted the party to start a debate on its China approach to better synchronize its ideological stance and policy initiatives with public expectations.

15 | Resource Efficiency

Taiwan has a postwar history of efficient bureaucratic policy-making which earned it the label of a successful development state. Against this background, and compared to most countries in Asia, the Taiwanese government makes efficient use of available economic and human resources to pursue its policies. While the top positions in Taiwan's government and administrative bodies are filled with political figures who may or may not be experts in their area of responsibility, the rank-and-file is recruited according to established rules and qualification levels. As special constitutional organ, the Examination Yuan is responsible for the education, recruitment and evaluation of the country's public officials. Serious cases of corruption in Taiwan's bureaucratic apparatus are rare and mostly involve politically nominated public officials, not professional civil servants.

Efficient use of
assets

9

Taiwan's resource efficiency is reflected in its good showing in a number of international indexes. For instance, it ranked 13th out of 182 listed countries in the 2014 World Competitiveness Yearbook and 14th out of 144 in the Global Competitiveness Index, which both measure, among other things, government efficiency. Worries concerning the government's budgetary reserves to refinance the various national pension fund schemes have existed for some years now and have relativized the positive picture of Taiwan's resource efficiency to some extent.

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

Policy
coordination

8

The current KMT-majority caucus in the legislature has been loyal to the president and the government during the first administration of Ma Ying-jeou (2008-2012), but then became entangled in a serious conflict in late 2013 between the president and legislative speaker Wang Jin-pyng, who is a long-time Ma opponent within the ruling party. This entailed intra-party strife and negatively impacted the policy-making process in the Legislative Yuan in the months thereafter. Consequently, government policies, which have been quite coherent during the first Ma administration, have become rather contested during the second, with the president increasingly becoming a lame duck for not being able to force his agenda through and KMT politicians distancing themselves from him in order not to jeopardize their electoral fortunes.

Taiwan's anti-corruption policies are very strict. A series of "sunshine bills" have been passed since the early 1990s to combat political corruption. One example is the Public Functionary Assets Disclosure Act of 1993, which requires the declaration of all income and assets by high-ranking officials and elected representatives. The 2004 Political Contribution Act limits political donations and makes campaign financing more transparent. A lobbying act took effect in August 2008 that requires lobbyists to register their activities and local government officials and elected representatives to inform their responsible agencies of their communication with lobbyists.

Anti-corruption
policy
9

Building off the example of Hong Kong and Singapore, Taiwan established an Agency Against Corruption in July 2011 under the Ministry of Justice to make the prevention, investigation and prosecution of corruption more effective. Furthermore, Taiwan's media and public are very sensitive to political corruption and regularly play a role in exposing officeholders who have been charged with misbehavior. Corruption is resolutely prosecuted by the legal system. The Control Yuan, a specific constitutional body that supervises government and public officials, partakes in the effort to curb political corruption. Its Ministry of Audit is responsible for ensuring that public resources are spent efficiently.

Local vote buying remains a serious problem in Taiwan but is considered by both politicians and voters as an inherent part of local political culture rather than political corruption. Nevertheless, offenders of regulations related to vote buying and political donations are prosecuted and there is a constant tension between the legal struggle against this practice on the one hand and its perceived inevitability as a social institution on the other.

16 | Consensus-Building

All major political actors agree on maintaining and strengthening Taiwan's market-based democracy.

Consensus on goals
10

There is, however, disagreement on the scope and speed of economic interaction with the Chinese mainland, which by itself is critical for the sustainability of Taiwan's economic well-being. While the ruling KMT government under president Ma Ying-jiu supports continuous and systematic integration across the Taiwan Strait, the opposition Democratic Progressive Party and broad parts of Taiwan's organized civil society demand more caution and consideration of the political drawbacks pertaining to this process. They also opt for more diversification of Taiwan's external trade and investment. Consensus on Taiwan's China policy and related economic policies is not very likely in the foreseeable future.

There are no anti-democratic veto actors in Taiwan.

Anti-democratic
actors

10

The most serious domestic cleavage between advocates of Taiwanese independence and a political arrangement with China (including unification) is reflected in the ongoing division of the party system into two rival (“pan blue” and “pan green”) camps. In recent years, this ideological confrontation has increasingly turned into a conflict on the scope, context and strategic timing of pragmatic cross-strait policies. The current government’s leeway to actively expand consensus across party camp dividing lines has become further limited in the review period, and efforts to launch any kind of dialogue between the ruling KMT and the DPP on Taiwan’s policy approach to China have been futile. The Ma administration is unable to depoliticize this cleavage and has been forced into the political defensive after its failed attempt to push the Cross Strait Trade in Services Agreement through the Legislature in early 2014. Since then, Taiwan faces a political impasse, reinforced by the strong defeat of the KMT in local elections held in late November 2014, with both party camps waiting for the 2016 general elections.

Cleavage /
conflict
management

8

Generally speaking, civil society in Taiwan has meaningful access to political decision-making and is considered an important contributor to the formulation and evaluation of policies. The government sponsors regular meetings with civil society leaders and invites them to national conferences on particular problems regarding economic and social development, environmental protection or educational reform. However, there is a difference between the opposition DPP and the ruling KMT: The DPP, which is itself very much a result of civic engagement during the authoritarian era, strongly appreciates civil-society input into the governing process. The KMT, for its part, is more bureaucratic, and its authoritarian past makes it more difficult for the ruling party to communicate to civic groups and their leaders. However, strong links exist between the KMT and professional and business organizations. At the same time, ideological polarization divides many movements and groups, thus making it difficult for them to speak to politicians from rival camps. Consequently, civil society participation is still conditioned by who is governing, though it is institutionalized at a high level. After the recent Sunflower Movement, there is much demand within Taiwan’s civil society to establish a “Third Force” beyond established party lines consisting of closely cooperating civic organizations that keep a distance from each of the political parties. Also, well-known civil society leaders intend to found new political parties in order to focus on issue politics, leaving the ideological battle of Taiwan’s national identity and China policy behind.

Civil society
participation

9

Reconciliation has not been a major political issue during the review period as the most important cleavages in Taiwan's postwar society – the conflict between Mainlanders and Taiwanese (culminating in the “2-28-incident” of 1947) and the crimes of the “White Terror” era in the 1950s and 1960s – have already been addressed by the former KMT government under Lee Teng-hui and under the DPP administration of Chen Shui-bian. However, in Taiwan's highly politicized society, the KMT's authoritarian past remains a sensitive issue often invoked by the “pan-green” camp to mobilize against the KMT and against China's claim to sovereignty over the island. There are efforts by academics, who promote “transitional justice” and the setup of a “truth commission,” to clarifying the question of political responsibility and help those who have been victimized during the “White Terror” to tell their stories and gain compensation from the government. The KMT remains reluctant to discuss the negative side of its authoritarian past, especially with respect to huge party assets accumulated during this era, which the opposition wants to recuperate for the national treasury. However, this is a long-term debate that is slowly losing steam.

Reconciliation
9

17 | International Cooperation

Taiwan's integration into the international community is constrained by China's strict stance on banning the island republic's access to all international organizations that are based on the principle of national sovereignty. However, under various euphemisms for its national title, Taiwan participates in a large number of international organizations. Taiwan's reputation for adapting to new circumstances and learning from its international environment has been well known since the days of the “Taiwan miracle.” Within the international community, the country has earned a reputation of high credibility and reliability in implementing necessary market reforms. Since its access in 2002, Taiwan has smoothly integrated into the WTO framework to facilitate global trade. It implements WTO rules well. Problems result from Taiwan's obstinacy concerning issues related to nomenclature in international organizations when it feels marginalized or discriminated against by China. Much to Taiwan's frustration, its efforts to systematically broaden and intensify sub-official political contacts with other countries after the stabilization of cross-strait ties starting in 2008 have widely failed. Even though the Chinese government has assured Taiwan that it will help it gain more “international space” resulting from better relations across the Taiwan Strait, Beijing has not changed its position of inhibiting the island republic in the international arena. The strategic employment of development assistance to further Taiwan's political objectives has meanwhile lost its former clout because of China's rising influence throughout the world. Taiwan has abandoned this practice anyway since the KMT returned to power in 2008, as it undermined efforts to establish amicable relations across the Taiwan Strait.

Effective use of
support
10

Since China prevents Taiwan's entry into most international and regional organizations and bodies which require state capacity, it is particularly important for Taiwan to demonstrate credibility, reliability and generosity in the international arena. By convincing the world's public that it rightfully claims sovereignty and that its diplomatic isolation deprives the international community of full use of Taiwan's expertise and financial might, Taiwan enjoys a good reputation as political partner and engaged donor of development aid and humanitarian assistance. In recent years, it has largely abandoned "dollar diplomacy" as a means to trade financial support for international recognition, both for reasons of low effectiveness, severe public criticism and, most notably, because of more amicable cross-strait relations. However, early hopes for more "international space" have not materialized over the review period and there is no guarantee that Taiwan's foreign policy will not get volatile again in the near future, especially if the DPP returns to power after the 2016 presidential and parliamentary elections.

Credibility
10

Taiwan cooperates actively and successfully in regional and international organizations like the Asian Development Bank (ADB), the Asia-Pacific Economic Cooperation (APEC) and the WTO (though not under its official state name of "Republic of China"). In May 2009, it also became an observer at the World Health Assembly. Taiwan is a strong advocate of regional integration and cooperation. After the change of government in 2008 and the return of the KMT to power, it has embarked on a strategy of "controlled" economic and social integration with the Chinese mainland, thus considerably easing cross-strait tensions. It signed a quasi-free trade agreement with China (Economic Cooperation Framework Agreement, ECFA) in June 2010 and free trade agreements with New Zealand and Singapore in 2013. However, the government has been disappointed in its hope that this would pave the way for its inclusion in more free trade regimes in the region, most notably the ASEAN Free Trade Zone and the projected Regional Comprehensive Economic Partnership regime, as China does not show any signs of changing its conservative approach to Taiwan's limited international representation.

Regional
cooperation
10

Strategic Outlook

Since the KMT regained power in 2008, Taiwan is seeing more stable cross-strait relations and the political will on both sides of the Taiwan Strait to maintain peace and intensify bilateral cooperation. However, there is a continuous debate in Taiwan on the risks of accelerated cross-strait integration and, increasingly, on the danger of Chinese capital penetrating the Taiwanese economy, thus facilitating market control and political blackmail. This debate has become more intensive during the review period, as market access for Chinese companies and capital investment were further liberalized. The promise of the Economic Cooperation Framework Agreement (ECFA), which was signed in June 2010 to ease Taiwan's access to other regional free trade regimes and international organizations, has not been fulfilled and there is no indication that China is going to change its restrictive behavior toward Taiwan regarding its participation in regional trade regimes. The ultimate objectives of China and Taiwan are certainly different: whereas the former seeks eventual unification, the latter wants to maintain sovereignty (or *de facto* independence). This is a basic contradiction that makes the Taiwan Strait a perennial hotspot in the regional security architecture. Against this background, it is hard to predict where relations between Taiwan and China will lead. The KMT government's China policy has come under fire by the recent Sunflower Movement, indicating a new wave of civil society resistance against cross-strait integration, which will very likely be persistent and uncompromising. At the same time, China, under its strong leader Xi Jinping, wants political talks in the near future, something that immediately touches upon the sovereignty issue. Any Taiwan government will be sandwiched between these contending forces, which can make governing cross-strait relations a constant nightmare – especially if no compromise can be reached between the opposing party camps in Taiwan on a joint policy stance *vis-à-vis* China and if Beijing is not encouraged to show any flexibility towards a non-KMT government that rejects the “one China-principle.” Meanwhile, Taiwanese capital is steadily flowing to the Chinese mainland and increasing numbers of Taiwanese – businessmen and their families, white-collar workers and students – leave the island to live and work in China, many of them permanently. More Chinese capital will come to Taiwan in the next few years, as will people – not only as tourists and students, but also as journalists, academics, entrepreneurs, mainland spouses and children of Taiwanese. It is difficult to predict the future consequences of both official and “sub-official” cross-strait integration for Taiwan's economy and society. Concerning the former, integration with China is widely acknowledged as the only way for Taiwan to safeguard its economic survival and to gain a strong foothold in the global economy. With respect to the latter, integration may, over time, influence the domestic identity discourse and reduce ideological polarization on the issue of Taiwan's relations with mainland China. However, recent developments put this into question, as domestic opposition against the Beijing leadership has intensified on the part of those who feel that Taiwan increasingly has been losing maneuvering space *vis-à-vis* China.