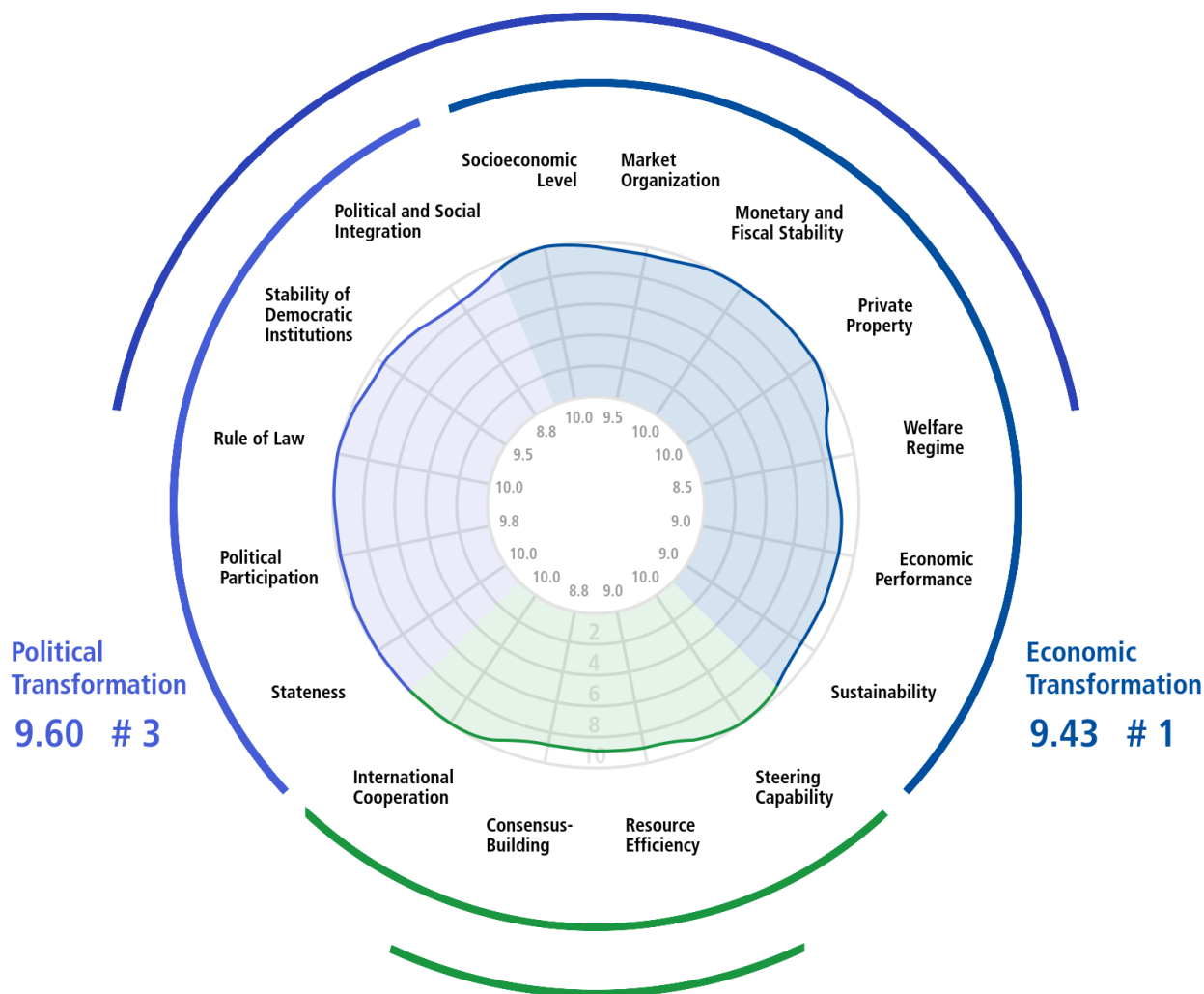


Taiwan

Status Index

9.51 # 2

on 1-10 scale out of 137



Political Transformation
9.60 # 3

Economic Transformation
9.43 # 1

Governance Index

7.70 # 1

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

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

Hauke Hartmann

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

Sabine Steinkamp

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

Key Indicators

Population	M	23.2	HDI	0.926	GDP p.c., PPP \$	69290
Pop. growth ¹	% p.a.	-0.5	HDI rank of 189	19	Gini Index	-
Life expectancy	years	80.9	UN Education Index	0.883	Poverty ³	% -
Urban population	%	60.7	Gender inequality ²	-	Aid per capita \$	-

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. 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 period under review, Taiwan maintained a high degree of stateness, meaningful elections, an absence of undemocratic veto actors, stable democratic institutions and a vibrant civil society, as well as strong guarantees of its citizens' political rights and civil liberties. Moreover, Taiwan's government successfully guided the country through two tumultuous years marked by societal, economic and international disruptions stemming from the COVID-19 pandemic, the Russian full-scale invasion of Ukraine and the escalation of tensions across the Taiwan Strait.

Especially during the first half of the review period, polls demonstrated a high level of trust in and satisfaction with President Tsai Ing-wen and her government's policies, particularly their swift, comprehensive and effective response to the COVID-19 pandemic. Taiwan's response, widely praised as one of the most successful worldwide, combined strict disease containment measures, economic relief efforts and support for the COVID-19 responses of international partners. As a result, Taiwan was able to minimize the number of pandemic-related deaths, while its economy has grown by over 6% in 2021. Furthermore, in 2021, a December 18 referendum took place, during which voters voted on four substantive policies. These policies included the activation of Taiwan's fourth nuclear plant, a ban on imports of pork containing ractopamine, the coupling of future referendum dates with nationwide elections and the construction of an environmentally relevant algae reef for a future liquified natural gas (LNG) receiving station. All four policies had been subject to highly contentious political disputes between the Democratic Progressive Party (DPP) and the Kuomintang (KMT), with the latter portraying the referendums as a vote of no confidence in the Tsai administration. Nevertheless, all four referendums ended with outcomes favored by the DPP government.

Nonetheless, over the course of 2022, Tsai's approval ratings plummeted to historical lows as the island suffered from large-scale domestic COVID-19 waves. This was due to the combination of the highly contagious Omicron variant of the virus, relatively low vaccination rates and relaxing of the stringent containment policy, which had hurt Taiwan's service sector. By the end of January 2023, Taiwan had confirmed over 9.5 million cases and almost 16,000 deaths, the vast majority of

which occurred after April 2022. In addition, economic growth slowed down markedly in the fourth quarter of 2022 in response to COVID-related chaos in Mainland China, Taiwan's largest trading partner. Furthermore, international trade was hindered by the war in Ukraine. As a result, GDP contracted by 0.86% compared to the period between October and December 2021.

As a result of these developments and an inept electoral strategy, Tsai's Democratic Progressive Party (DPP) suffered a significant defeat in the November 26, 2022, nine-in-one local elections. As is tradition after poor election results, President Tsai resigned as DPP chairperson. The election included the first constitutional referendum since 2005, which asked voters to decide on lowering the voting age from 20 to 18 years and the minimum age for candidacy from 23 to 18 years. With a turnout of about 60%, the DPP-sponsored referendum failed. A majority of 53% voted against the proposal.

In terms of international politics, cross-strait relations reached new lows during the review period, with President Xi repeatedly stating his goal of unifying Taiwan with Mainland China, even if it required military force. The Chinese People's Liberation Army escalated its military presence in Taiwanese air and sea space and conducted military maneuvers off Taiwan's coasts. Moreover, China continued to exert pressure on Taiwan's few remaining official diplomatic allies, while also employing "cognitive warfare" on the Taiwanese public and launching cyberattacks on state agencies, firms and journalists critical of Beijing. Nevertheless, these actions have not swayed the Taiwanese population in favor of unification with Mainland China and coming under Chinese control. The overwhelming majority of Taiwanese continue to support maintaining the current status quo in the Taiwan Strait.

Within these constraints, Taiwan has continued to deepen its existing ties to its formal and unofficial allies. After initial concerns among some Taiwanese that the United States, under President Biden, might be turning "soft on China," the relationship with the United States, Taiwan's most important international partner, has further deepened. Taiwan's legislature has also increased its parliamentary diplomacy and outreach, with routine but highly publicized visits by lawmakers from partner countries such as the United States, Asia and numerous European countries. Additionally, Taiwan has established a new Congressional Diplomacy and Strategy Consensus Committee to foster international collaboration. Following Russia's invasion of Ukraine in February 2022, Taiwan joined the West in imposing sanctions on Russia and has provided financial and material support to the Ukrainian government. For example, Taiwan has sent electricity generators to Kyiv.

Economically, Taiwan remained in the world's top 20 economies in terms of macrostability, international competitiveness and market-friendly policies, despite the continuing trend of worsening cross-strait relations and the country's isolation from most international organizations based on the principle of national sovereignty. Taiwan's economy experienced impressive growth of 6.5% in 2021 and is projected to have grown 2.45% in 2022, despite a slight contraction in the fourth quarter due to a breakdown in export markets. According to IMF estimates, Taiwan's GDP per capita exceeded that of Japan and South Korea in 2022. Inflation levels and volatility have been comparatively low during the review period compared to global trends, with the consumer price index (CPI) increasing by 1.96% in 2021 and projected to increase by 2.95% in 2022. Exports

reached a total of \$479.4 billion in 2022, a further 7.4% increase from the record \$446.37 billion recorded in 2021. Throughout the review period, Taiwan recorded solid trade surpluses, with a record \$64.4 billion in 2021 and a projected \$51.4 billion in 2022, along with a labor force participation rate of 59.18% and an unemployment rate of 3.67%. Unemployment slightly increased in 2021 compared to the previous year, with a rate of 3.95% (up from 3.85% in 2020), but was predicted to return to pre-pandemic levels in 2022. As in previous years, public finances were healthy, with solid tax revenues, manageable public debts and foreign reserves reaching a new record high of \$554.9 billion in December 2022.

History and Characteristics of Transformation

In Taiwan, economic transformation has historically been prioritized over political transformation. The authoritarian leadership of Chiang Kai-shek and the KMT laid the groundwork for a stable market economy in the 1950s. During this period, the state played a significant role in regulating and protecting domestic markets, actively intervening in economic affairs. In the subsequent four decades of authoritarian rule following the Chinese Civil War in 1949, Taiwan gradually transitioned toward 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 the legalization of new political parties in January 1991. In 1991 and 1992 respectively, Taiwan held the first free elections to its central parliamentary bodies, the National Assembly and the Legislative Yuan, marking the end of the transition process. During the 1990s, democracy matured 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 of Taiwan’s “father of democracy.”

Successful democratic consolidation had already 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 making the KMT an opposition party for the first time since 1949. The subsequent eight years were marked by severe legislative inefficiency as the 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 ensuring Taiwanese sovereignty in the face of Beijing’s “one China principle,” and pushed for a referendum and a new constitution.

The KMT returned to power with President Ma Ying-jeou and a two-thirds majority in the Legislative Yuan. The new administration immediately started 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 a solution to the sovereignty dispute between Taipei and Beijing any closer. By the time of the 2016 general elections, a large

percentage of the populace had grown disillusioned with the KMT government's promises of greater cross-strait integration. Consequently, the elections saw the KMT lose both its parliamentary majority and the presidency to the DPP and its candidate Tsai Ing-wen, marking the third peaceful transfer of power in Taiwan's history and the first time a woman was elected president. Drawing on her legislative majority, the president was able to tackle a multitude of reforms, many of which were highly contentious. Together with a number of government scandals, they 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 managed to secure a landslide victory in the November 2020 general elections, defending the presidency and the party's majority in the Legislative Yuan. This success can be attributed in part to a highly successful and effective state response to the COVID-19 pandemic, as well as consistently strong economic performance. The KMT, whose presidential candidate was Han Kuo-yu – an individual often called “Taiwan's Donald Trump” due to his quasi-populist stance – experienced a significant electoral defeat. The worsening of cross-strait relations with China also played a role in the DPP's win. President Xi Jinping of China stressed the goal of unifying Taiwan with the People's Republic, even if military force were required. Additionally, the People's Liberation Army increased its military presence in the sea lanes and airspace surrounding Taiwan. In response to these developments, voters elected Tsai to safeguard Taiwanese de facto sovereignty and the democratic regime from unification under China's “one country, two systems” formula. For most Taiwanese, the prospect of unification looked increasingly undesirable because of Beijing's heavy-handed assertion of control over Hong Kong.

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 long-lasting struggle over Taiwan's national identity has been replaced by public discourse over how best to manage the relationship with Mainland China. The vast majority of Taiwanese support the status quo in the Taiwan Strait, which constitutes the best compromise of their existential security and economic interests in the face of China's militant rejection of Taiwan's formal independence and a distinct Taiwanese national identity, their growing identification with their state, and a desire for sovereignty that has grown since the 1990s. The share of citizens identifying with and supporting reunification with China has further declined over the review period, especially in light of Beijing's increasing military assertiveness and its heavy-handed policy toward Hong Kong. Taiwan does not deny citizenship based on group identity.

In Taiwan, state legitimacy is fully derived from a secular constitution. Religious dogmas play no role in the legal system, its jurisdiction or political institutions.

Question
Score

Monopoly on the
use of force

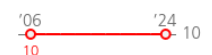
10



1

State identity

10



1

No interference of
religious dogmas

10



1

Taiwan's civilian administration is differentiated, professional and 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 education and health services, are 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 subject to competition in regular, universal and secret multiparty elections, which are usually undisputed and widely covered by the media.

Free and fair
elections

10



1

There are no restraints on the electoral process, which is fair, transparent and professionally run by the no-npartisan Central Election Commission, though citizens quarantined for COVID-19 infection were prohibited from voting in the November 26, 2022 local election. COVID-19 quarantines prevented 65,000 eligible voters from voting, out of 19.3 million total voters. It was criticized by independent observers, such as Amnesty International.

An ongoing and increasing problem is the (largely unsuccessful, it seems) attempt by the Chinese government to interfere in Taiwan's electoral processes through spreading false news on social media and funding candidates opposing independence. In addition, prior to the November 26, 2022 local elections, Taiwanese law enforcement investigated numerous cases of alleged attempts at vote buying on behalf of China. More generally, vote buying (attracting voters with small gifts, free lunchboxes and small sums of money as "tokens of appreciation" has come to be expected by most voters in suburban and rural districts) in local elections remains an issue. It is often linked to organized crime and has so far weathered all legal action. At the national level, however, vote buying does not jeopardize the fairness or outcomes of elections, not least due to 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 might negatively affect democratic participation.

Effective power to
govern

10



1

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

Association /
assembly rights

10

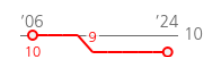


1

Freedom of opinion and freedom of the press are well-established and are exercised unrestrictedly, with vigorous and diverse reporting on government policies and alleged official wrongdoing. Taiwan's 2005 Freedom of Government Information Law guarantees public access to government documents. There is no media censorship. However, individual incidents of police obstruction and violence against journalists covering demonstrations are reported, and journalists face defamation charges under Taiwan's existing libel and slander legislation for critically reporting on politicians. However, there was no systematic media harassment or violence against reporters during the review period. The 2022 World Press Freedom Index by Reporters Without Borders ranked Taiwan 38th worldwide and fourth in the Asia-Pacific region in terms of media freedom. In terms of internet freedom, Taiwan is ranked fifth worldwide and first in Asia, according to Freedom House's 2022 Freedom of the Net report. There have been no official attempts to block websites that are critical of government policy.

Freedom of
expression

9



1

The main limitation to freedom of expression is China's informational warfare campaign. Large shares of Taiwan's private media are concentrated in the hands of tycoons and enterprises with business interests in China, which leads to self-censorship of critical news reporting on China. Moreover, there are numerous reports of journalists critical of China being 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 execution of governmental power. The judiciary functions well and without undue political influence. 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 to hold the government accountable are limited, and there are almost no institutional guards against political stalemate when the president and the legislative majority belong to different parties. Long-discussed plans on addressing these structural problems 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 made during the review period.

Judicial independence is well-established in Taiwan, and court trials are generally fair. Appointments of judges are regulated and not subject to political considerations. Past allegations that courts are too closely allied to the KMT have not been substantiated by legally relevant evidence. According to the most recent data 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 in 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 and make good on campaign promises, the DPP government has made some progress on judicial reform during the review period, working closely with civil society organizations. This includes the National Judge Act in July 2020, which instituted the participation of lay judges in criminal trials and was 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. Prior to implementation, the majority of Taiwanese expressed hope that the lay judge system would improve Taiwan’s judicial system.

Separation of powers

10



1

Independent judiciary

10



1

A robust institutional framework to combat official corruption is in place and works effectively for the most part. 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 regulate political donations, declarations of income for public servants and the rules for political lobbying. In addition, political corruption receives a great deal of attention in the mass media, even though the majority of observers agree that the country performs reasonably well in preventing and prosecuting large-scale corruption. It is an important issue on the platforms of all relevant political parties and is prosecuted rigorously under criminal law.

During the review period, a number of high-profile corruption scandals were uncovered and are being prosecuted, such as a case from the early 2000s involving over 200 officials from numerous government agencies, the judiciary and high-ranking officials. Fierce competition between the political camps, aggressive reporting and an educated and highly sensitive population ensure that such high-profile corruption charges receive much publicity and that perpetrators are held accountable before the law.

Vote buying in local elections and connections between organized crime and local politics remain problems in Taiwan. It has been an established practice since the early days of democratization and has been regarded as inevitable by most politicians. Related to the December 2022 local elections, law enforcement investigated 8,859 bribery cases in total, among which 6,200 involved election bribery and 304 cases election violence. In these, as in other cases of office abuse, the legal system and law enforcement prosecute vote-buying activities 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, and the authorities effectively enforce these prohibitions. Consequently, Taiwan enjoys a very good human rights record, according to all relevant international observer groups, and there are no reports of unlawful or arbitrary use of state power against the population or any specific minority.

Civil rights are constitutionally guaranteed and well protected, and those who violate them are taken to court. The judicial system provides ample opportunities to seek redress for rights violations. Court trials follow due process, and there are no reports of physical abuse of prisoners. The police largely respect the ban on arbitrary detention, and attorneys are usually allowed to monitor interrogation to prevent abuses. LGBTQ+ rights are protected, including the right to same-sex marriage, which was legalized in May 2019, making Taiwan the first Asian country to recognize same-sex marriages. In 2022, the Tsai administration initiated a human rights action plan under which a broad range of human and civil rights improvements are to be made in the coming years.

Prosecution of office abuse

10



1

Civil rights

10



1

Nonetheless, Taiwan continues to keep the death penalty in the face of domestic and international protests, with the government regularly citing opinion surveys to prove that a large majority of the populace supports capital punishment for serious crimes. Despite a first parliamentary reading in 2016, the country still does not have a refugee act, an issue that has repeatedly made the news due to the rise in the number of asylum-seekers 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. In addition, as in other parts of East Asia, abortion of female fetuses is reported to be practiced in Taiwan, such that sex ratios at birth tend to be around 108 boys per 100 girls (2020).

The rights and legal position of Taiwan's roughly 700,000 migrant workers (mostly from Indonesia, the Philippines and Vietnam), who primarily work as industrial laborers, marine workers and household caregivers, have long been a blight on the country's civil rights record. Despite significant progress made during Tsai's first presidency, broad media coverage of their situation and active civil society engagement on behalf of their rights, monitoring and enforcement of the Labor Standards Law that covers these blue-collar migrant workers remain insufficient. Another point of contention remains the brokerage system, under which migrant workers have to pay high monthly fees to agencies that connect them to Taiwanese employers. Moreover, there has long been a debate as to whether and how migrant workers can become Taiwanese citizens.

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

Performance of democratic institutions

9



1

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

Party system

9



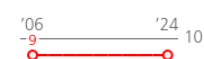
The importance of blocs of smaller parties allied with the DPP or KMT has declined in recent years due to the electoral success of new nonaligned parties. In the Tenth Legislative Yuan (2020 – 2024), the two large parties account for 99 out of the 113 members of parliament (87.6% of all seats; DPP: 61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

Political polarization concerning Taiwan's national identity and the camps' diverging stances on Taiwan's policy toward China has declined in recent years but is prone to flare up temporarily in response to high-profile events such as the political visit of a KMT delegation to China in August 2022. At the same time, increasing numbers of the population consider themselves independent voters and not aligned with one of the big parties, and Taiwan's sophisticated electorate casts its vote increasingly on pragmatic issues such as diverging economic strategies and plans for social and political reform.

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

Interest groups

9



Parts of Taiwan's civil society remain focused on ideological issues related to cross-strait policy and the unification/independence split, sometimes resulting in factional strife and public clashes, which became particularly visible during the 2014

“Sunflower Student Movement.” At the same time, the momentum generated by the student movement has also given important external impulses to the somewhat calcified political landscape and has contributed to putting 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.

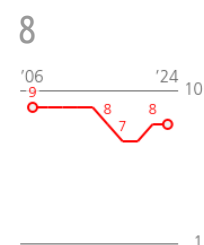
While the state poses few limitations to civil society activity, one area of concern is China’s exploitation of Taiwan’s open civic space as part of the Mainland’s “united front” and information warfare strategy, with civil society groups set up in Taiwan to further Beijing’s interests. In response, in 2021, the government tightened the rules for Taiwanese organizations that invite Chinese officials on professional exchanges.

After years of declining voter turnouts, the 2020 general elections saw the highest participation in nationwide elections since 2008, with 74.9% of the voting population participating in the elections (up from 66.3% in the 2016 general elections). However, this did not mark a lasting reversal of the long-term trend, which was again visible in the November 26, 2022 local elections. Then, only 61% of all eligible voters went to the polls, which is about five percentage points lower than the average in past local elections. Together with the availability of alternative forms of political participation and communication through social media and civic activism, declining voter turnout reflects a continuing degree of disillusionment with the established political institutions. In fact, surveys show medium levels of trust in formal government institutions. According to the latest available data for Taiwan from the World Values Survey (2019), 52% of respondents expressed at least “quite a lot” of confidence in the national government. Trust in the representative organs is considerably lower, with only 24% and 31% trusting political parties and the legislature, respectively.

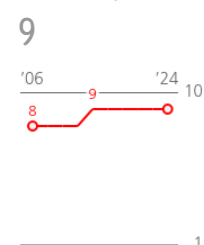
Still, the principle of democracy is uncontested in Taiwan, with 91% considering having a democratic system at least “fairly good” and only marginal support for authoritarian alternatives, even if large numbers of the population express limited satisfaction with the way democracy works in the country 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, are the backbone of Taiwan’s democracy. They create a climate of tolerance and a culture of nonviolence and democratic deliberation. However, based on the latest available World Values Survey (2019) data, almost 70% of all respondents in Taiwan express the opinion that one needs to be “very careful” in dealing with people. Yet, this relatively low degree of reported interpersonal trust does not undermine the overall strong social bonds, the variety of existing networks of mutual support, and the high levels of social responsibility many Taiwanese exhibit in their daily lives.

Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Taiwan is a highly developed market economy. The country's level of socioeconomic development enables nearly all citizens to enjoy adequate freedom of choice. Societal exclusion based on factors such as poverty, gender, religion or ethnicity is minimal to nonexistent and it is not structurally embedded. In international comparisons, Taiwan's average rate of individuals living in low-income conditions – varying based on thresholds set by municipalities – remains low, at 1.27% of the total population and 1.63% of households. Additionally, the relative poverty rate was 7.53%, according to 2021 data. In recent years, Taiwan has engaged in a lively domestic debate over increasing social inequality. However, the distribution of income, as measured by the Gini coefficient, remains relatively equal. The Gini coefficient has remained stable around 0.34 since 2010 and throughout the review period.

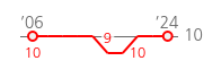
According to the most recent data available (2021), Taiwan is considered a country with a very high level of human development, at a value of 0.926. This places Taiwan 19th in the global Human Development Index, up from 23rd in 2019 (when its value was 0.916). Taiwan ranks sixth worldwide and first in Asia on the Gender Inequality Index for the year 2019.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	611396.0	673178.0	775741.0	760460.0
GDP growth	%	3.1	3.4	6.5	2.4
Inflation (CPI)	%	0.6	-0.2	2.0	2.9
Unemployment	%	3.7	3.9	4.0	3.7
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	2.1	0.1	17.3	-0.2
Import growth	%	2.3	-3.3	17.5	1.5
Current account balance	\$ M	65710.0	97254.0	117976.0	101305.0

Question
Score

Socioeconomic
barriers

10



1

Economic indicators		2019	2020	2021	2022
Public debt	% of GDP	32.7	32.1	30.1	29.7
External debt	\$ M	184659.0	189873.0	213592.0	-
Total debt service	\$ M	12248.0	6561.0	9463.0	6045.0
Net lending/borrowing	% of GDP	-1.8	-2.9	-2.1	-1.7
Tax revenue	% of GDP	9.0	8.1	9.2	-
Government consumption	% of GDP	14.0	13.9	13.5	13.7
Public education spending	% of GDP	1.5	1.5	1.3	-
Public health spending	% of GDP	0.1	0.1	0.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.8	1.9	1.7	1.6

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Taiwan's market economy is institutionally sound. It features transparent, clearly defined and state-guaranteed rules for ensuring fair competition, as well as largely equal opportunities for all market participants. An independent Fair Trade Commission supervises business practices to ensure fair competition. Business freedom is high. Market actors face neither entry nor exit barriers. While the government upholds 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 high in global economic indices measuring ease of doing business, economic freedom and competitiveness. According to the 2022 Economic Freedom of the World Annual Report, Taiwan is ranked 24th in the world with a score of 7.68 out of 10 (based on 2020 figures) and 4th 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 2022 Index of Economic Freedom, Taiwan ranked 6th worldwide and 3rd out of the 39 countries in the Asia-Pacific region, indicating significant relative improvement compared to previous years. The country received very high scores for

Market
organization

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the integrity of its legal system, well-specified property rights, sensible regulation and few restrictions on the freedom of business, monetary transactions and trade. Compared to previous years, improvements were noted in judicial effectiveness and labor freedom.

The main limitations to Taiwan's economic openness remain the restricted access for Chinese firms to Taiwanese markets. Investment in strategic sectors like LED, solar cells and display panels remains capped for Mainland investors at less than 50%. In non-strategic sectors of Taiwan's manufacturing industries, however, Mainland Chinese capital can increase its ownership to more than 50%. While, in 2019, existing regulations on foreign investment were simplified, limitations on Chinese investment in sectors Taiwan considers areas of national security remained intact or were extended through the review period. In 2022, for example, the National Security Act and the Act Governing Relations Between the People of the Taiwan Area and the Mainland Area were amended to protect Taiwan's core technological sectors from Chinese influence and espionage. These additional regulations included a requirement of government approval for Chinese or Chinese-funded companies engaged in business activities in Taiwan and increased fines for individuals violating such limitations. Taiwan's shadow economy is relatively large for a highly developed industrial economy, with estimates of up to 30% of GDP.

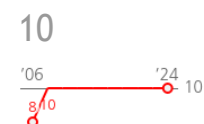
Even though the state maintains its monopoly on certain basic utilities and services (e.g., water supply and postal services), market competition is well-established. Legal frameworks exist to combat cartels, and the rules are well-established and effectively enforced by the relevant state institutions.

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

Since 2017, the monopoly of 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, as its economy is heavily reliant on its exports. Exports continued to expand throughout the review period, despite a reduction in exports in the fourth quarter of 2022. In 2022, exports reached a total of \$479.4 billion, a 7.4% increase from the \$446.37 billion recorded in 2021, which was also a record high. In terms of export products, the country is one of the world's principal exporters of electronic components and IT technology, which accounted for almost 42% of total exports in 2022. Tariff rates on industrial products are comparable to those found in industrialized nations such as Japan and the United States. Taiwan generally follows WTO rules. With the exception of cross-strait

Competition policy



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Liberalization of foreign trade



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economic relations, the state refrains from intervening in investment planning and foreign trade. Intervention in the former mainly takes place to control Taiwan's high trade dependency on China but also to restrict Mainland investment in sensitive sectors, notably real estate, finance, telecommunications, information technologies and semiconductors.

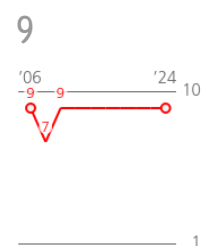
Some 40% of Taiwan's exports and more than 60% of its outbound investments were to the Chinese Mainland (including Hong Kong) in the last two decades, resulting in a high trade dependency on China. This has been a concern for critical observers for quite some time. The ratification of follow-up agreements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

Since September 2016, Taiwan has been following a "New Southbound" policy to diversify its trade relationships by deepening regional integration and increasing economic, trade and tourist links with 18 of its neighboring countries to the south – particularly the ASEAN nations but also Australia and New Zealand – making the island less dependent on trade with China. In September 2021, Taiwan officially applied to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), fulfilling one of President Tsai's core economic policy objectives. In June 2022, Taiwan and the United States began a comprehensive, bilateral Taiwan-U.S. Initiative on 21st-century Trade, which aims to facilitate trade, harmonize regulation and establish common standards in a range of sectors and parallels the Indo-Pacific Economic Framework (IPEF) of the United States and 13 Asian countries, from which Taiwan was excluded.

During the review period, Taiwan's banking system has remained stable. According to official data, by the end of 2022, Taiwan housed a total of 5,891 financial institutions. The majority of these institutions were branch offices operated by 39 domestic commercial banks, comprising approximately 80% of total deposits and 91% of total loans. Foreign banks, including those from Mainland China, accounted for around 2% of total deposits and 4% of loans. Additionally, there were 23 credit cooperatives catering primarily to regional customers, representing 1.5% of total deposits and holding a market share of loans of 1.6%. Furthermore, the credit departments of farmers' and fishermen's associations collectively managed 311 branches, contributing to approximately 4% of deposits and 3.6% 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 principle, open to foreign participation. Banks benefit from a high proportion of stable customer deposits and flexibility in accessing domestic capital markets. The system's low use of cross-border funding makes it less vulnerable to contagion risks during periods of turbulence in global capital markets, such as the 2008/2009 global financial crisis or the COVID-19 pandemic.

Banking system



The official nonperforming loans (NPL) ratio of Taiwanese domestic banks was 0.15% in November 2022. The capital adequacy ratio of Taiwan's domestic banks was 14.0% in September 2022, well above the statutory Basel III minimum of 10.5%. A stress test of 36 domestic banks conducted in June 2021 by the FSC found Taiwan's banking system to be stable and sufficiently robust to withstand the impacts of COVID-19 on the global economy and changes in the financial environment, despite a potential increase in losses and a loss in banks' profitability.

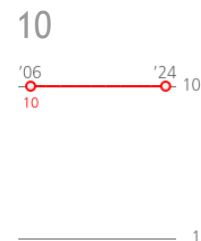
On the negative side, the banking sector is still dominated by fully and partially state-owned banks, such as Taiwan's state-owned Chunghwa Post. Chunghwa Post operates the country's largest savings service, with 1,298 local branches, accounting for 12.2% of total deposits in November 2022. Additionally, the banking system is highly fragmented, with the lowest banking concentration ratio among the region's major financial systems. Although concentration processes are ongoing, they are progressing slowly. While this reduces the risks associated with excessive concentration in a few "too big to fail" institutions, it has resulted in intense competition that drives profitability down to levels that are almost unsustainable.

8 | Monetary and fiscal stability

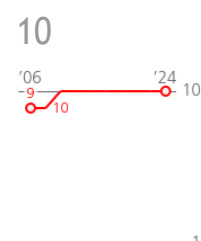
Taiwan's government and central bank pursue a prudent foreign exchange policy consistently linked to the goal of financial and economic stability. They steered the country rather well through the 2008/2009 global financial crisis and the financial stress caused by the COVID-19 pandemic. Taiwan's central bank is fully independent and enjoys one of the best reputations in Asia for its cautious, reliable interest rate policies. As a result, inflation levels and volatility were comparatively low during the review period in comparison with global trends, with the consumer price index (CPI) increasing by 1.96% in 2021 and a projected 2.95% in 2022. In 2022, the New Taiwan dollar (NT\$) saw a slight devaluation in relation to the U.S. dollar, with a projected average exchange rate of 30.7 to one (from 28.5 in 2020 and 27.7 in 2021).

Taiwan pursues a prudent, stability-oriented fiscal policy. Taiwan's outstanding total public debt, which measures non-self-redeeming debts across all levels of government, is low in international comparison. It was projected to be 32% of GDP at the end of 2022, up from 30.1% in 2021, but similar to the 2020 figure. This includes additional debts taken up to fund the special budget in response to the COVID-19 pandemic. It is comparatively low by global and regional standards. Taiwan's foreign exchange reserves reached a new record high of \$554.9 billion in December 2022. Tax revenues, excluding social security contributions, totaled 13.2% of GDP in 2021, up from 12.0% in 2020. Taiwan's current account balance reached a record surplus of \$116.1 billion in 2021, up from \$94.3 billion in 2020.

Monetary stability



Fiscal stability



9 | Private Property

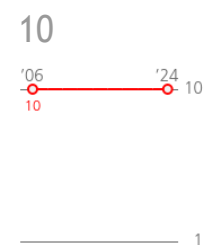
Taiwan's property rights regime is well-established and enforced by an independent judiciary. Nationalization and expropriation of private property are regulated by law, which requires fair compensation. The country consistently ranks high in terms of property rights in global economic freedom and business environment indices. This is despite individual disputes over land expropriation that have received considerable media attention in recent years, highlighting vague language in Taiwan's Land Expropriation Act and deficient implementation of compensation regulations. Proposals made by DPP legislators to amend the act in February 2022 failed to materialize during the review period. While Taiwan is not a member of the World Intellectual Property Organization (WIPO), it adheres to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In 2008, the country established an intellectual property court. Since 2009, Taiwan has no longer 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 continues to maintain direct involvement in some "strategic" economic areas, including shipbuilding, petroleum, steel, sugar, tobacco and liquor, banking, insurance, and railway transport, in some cases holding the majority of shares. Basic utilities, such as conventional power production, water supply and postal services, remain monopolized by Taiwan's 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. Except for the state monopolies, SOEs compete directly with private companies. The eventual privatization of some SOEs, such as CPC Corporation, Taipower and Taiwan Sugar, has been on the Tsai administration's agenda since 2017. But little progress was made during the review period.

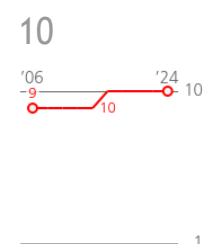
10 | Welfare Regime

Social welfare expenditures accounted for 27% of the government budget in 2021 and a projected 29% in 2022, which makes social welfare the single largest budgetary item. Taiwan continues to have one of the most comprehensive, well-developed welfare regimes in Asia. The social safety net is closely knit, providing substantial protection against poverty and other social risks, and was further bolstered and extended during the review period. In 2021, for instance, the Executive Yuan pledged to spend NT\$40.7 billion (\$1.46 billion) over the next five years to strengthen mental health services and recruit additional personnel into the public sector.

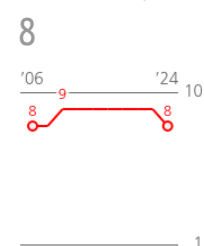
Property rights



Private enterprise



Social safety nets



Still, concerns regarding eligibility to receive support under the Public Assistance Act have grown in recent years. It is alleged that currently, more than two million disadvantaged people cannot receive aid due to outdated regulations. That is, almost 10% of the population is not receiving adequate support.

The state provides a compulsory National Health Insurance (NHI) program to all citizens, including foreigners who have lived in Taiwan for more than six months. Additionally, there is unemployment insurance and a voluntary labor pension with portable retirement accounts. Furthermore, there is mandatory coverage by a national pension scheme that includes the unemployed, non-working spouses and freelancers. Financial support is also given to the disabled and disadvantaged households, which includes living-cost allowances, health care and special subsidies. The Public Assistance Act, which came into force on July 1, 2011, includes amendments that stipulate the conditions of long- and short-term assistance to lower and middle-income households. These involve providing 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, the rights of and financial support for injured workers were strengthened. Furthermore, starting on January 1, 2023, childcare subsidies are to be paid to families with young children regardless of household income.

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 at least 36% 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 supplemented by a charge of 2% 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 (NT\$20 or \$0.60 per standard pack of cigarettes), as well as proceeds from the national lottery and co-payments individuals make for medical services.

Military conscripts, prison inmates and low-income households do not need to pay; their premiums are fully covered by the government. Since 2017, NHI expenditures have slightly exceeded revenues, resulting in a slow decline in its still well-endowed and stable safety reserve fund.

The NHI was well-equipped to handle the ongoing COVID-19 pandemic during the period under review. NHI support was accompanied by a number of financial relief measures to mitigate the economic and social impacts of the pandemic on individuals, contributing to Taiwan's highly successful handling of the pandemic.

The pension system for Taiwan's 450,000 retired public servants and military personnel was long ago identified as a potential hotspot in 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 improve the pension funds of civil servants and teachers, requiring monthly contributions to individual accounts, instead of a common pension fund. The contributions add up to 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 only apply to civil servants hired after July 1, 2023. The debt-ridden pension system will require additional financial bolstering for the foreseeable future.

According to the constitution, all citizens are equal before the law “irrespective of sex, religion, race, class or party affiliation.” Women's rights have continuously improved in recent years, with the government focusing on preventing and legally condemning domestic violence and sexual assault, as well as on protecting women's labor rights. A cabinet-level Department of Gender Equality was formed in 2012. The Gender Equality in Employment Act, last amended in 2013, stipulates that the principle of equal pay for equal work must be respected, while adequate mechanisms to prevent sexual harassment have been implemented in every workplace. Employees – both female and male – may apply for unpaid parental leave of up to two years to care for their children under the age of three. The act also ensures women the right to eight weeks of paid maternity leave. In 2021, the Gender Equality Policy Guidelines were amended to strengthen gender equality in the workplace.

Based on the most recent data (2019), Taiwan would have ranked first in Asia and sixth in the world, according to the U.N. Gender Inequality Index (GII), with a calculated index value of 0.045 (a score of 1 meaning extreme gender inequality). This is mirrored by women's strong role in education and the economy. In 2014, female university students outnumbered their male counterparts for the first time. In 2018, women accounted for 52.7% of college graduates. However, women are still underrepresented among university graduates with advanced degrees. Fewer Taiwanese women graduate with master's and doctoral degrees than women in major industrialized nations such as the U.S., Germany, South Korea and France.

In 2020, the labor force participation rate for women aged 15 and over was 51.4%, compared to 67.2% for men. The gender pay gap has declined in comparison to the previous review period, with women earning on average 14.8% less than men. This is slightly worse than the 14.6% between 2016 and 2018 but significantly lower than in neighboring Japan (30.7%) and South Korea (30.4%).

Since the January 2022 by-elections, 42.5% of Legislative Yuan representatives are women, setting a new record for Taiwan and achieving the highest ratio of female to male lawmakers in all East Asian democracies. With respect to the Gender Gap Index (GGI), which measures gender gaps in economic participation, educational

Equal opportunity

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attainment, political representation and health, Taiwan remains a high performer, despite not improving since the previous BTI report. On the 0 to 1 scale, with 1 marking the highest degree of equality, Taiwan's score was 0.75 in 2021 (no change compared to 2019), ranking it 38th globally (down from 29th in 2019) and first among neighboring Asian countries.

The greatest stumbling block for gender equality is deeply entrenched cultural traditions, which have had an impact on the legal system. 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.

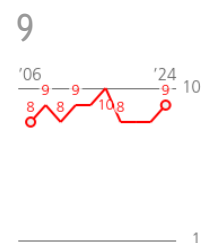
Taiwan's indigenous peoples, who account for about 2% of the total population, have access to several social welfare and affirmative action programs based on specific laws to protect their rights. These programs include low-interest housing loans and rent subsidies, privileged access to senior high schools and universities, a 1% quota within the workforce in government agencies, public schools and state enterprises with 100 or more employees, and preservation of their language and culture. Additionally, six seats in the Legislative Yuan are reserved for representatives from indigenous constituencies. While the social gap between these native groups and the Taiwanese Han majority has narrowed over the years, inequality still exists.

11 | Economic Performance

During the review period, Taiwan's highly developed economy has performed very well, given the disruptions in the global and Mainland Chinese economies due to the COVID-19 pandemic. Taiwan's economy saw an impressive growth of 6.5% in 2021 and is projected to have grown by 2.45% in 2022. However, economic growth slowed markedly in late 2022 in response to COVID-related chaos in China, Taiwan's largest trading partner, and the negative effects of the war in Ukraine on international trade. Gross domestic product (GDP) actually contracted by 0.4% in the fourth quarter. According to IMF estimates, Taiwan's GDP per capita has been higher than that of Japan and South Korea in 2022. In terms of net financial assets per capita, the Allianz Global Wealth Report 2022 ranked Taiwan first in Asia and fifth globally. Inflation levels and volatility were comparatively low during the review period in comparison to global trends, with the consumer price index (CPI) increasing by 1.96% in 2021 and projected to increase by 2.71% in 2022. Exports reached a total 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 \$64.4 billion in 2021 and a projected \$51.4 billion in 2022, slightly lower than the \$58.9 billion in 2020.

Unemployment increased slightly in 2021 compared to the previous year, with a labor force participation rate of 59.02% (down from 59.14% in 2020) and an unemployment rate of 3.95% (up from 3.85% in 2020). According to the most recent projections, more Taiwanese found work in 2022, making the resulting labor force

Output strength



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participation rate 59.18% and lowering unemployment to 3.67%. The relatively high share of young people among the unemployed remains a matter of concern. The jobless rate was around 12% among Taiwanese between the ages of 20 and 24 in 2022.

Tax revenues, excluding social security contributions, totaled 13.2% of GDP in 2021, up from 12.0% in 2020. Taiwan's current account balance reached a record surplus of \$116.1 billion in 2021, up from \$94.3 billion in 2020. Gross capital formation was projected to be 7.11% in 2022 and 14.46% in 2021, up from 6.15% in 2020.

12 | Sustainability

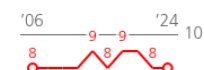
Environmental awareness has been on the rise in Taiwan since the 1980s, primarily because of a strong social movement that pushed the government to make environmental protection a major factor in economic policy planning. Today, environmental protection is institutionally integrated through the independent,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

Taiwan heavily relies on importing energy sources, with 97.7% of its total energy supply imported in 2021. Energy is primarily generated from burning fossil fuels, with oil, coal and natural gas accounting for 92.3% of all energy supplies in 2021, a slight increase from 91.7% in the last reporting period. The contribution of nuclear power and renewable sources to Taiwan's energy mix has stagnated at a low level, representing 5.6% and 2.1% of the total energy supply, respectively. Projections indicate that the proportion of renewables will rise to 10% in 2022, as the construction of solar farms and offshore wind parks accelerated after little progress during the COVID-19 pandemic.

Nonetheless, 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 has been an important governmental objective since 2010. The 2014 National Green Energy and Low Carbon Master Plan

Environmental policy

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stipulates 10 individual measures to improve efficiency, including an adequate regulatory framework, lowering the share of energy derived from fossil fuels, and environmental education and public instruction. In June 2015, the Greenhouse Gas Reduction and Management Act was passed by the Legislative Yuan, which set the target of reducing Taiwan's greenhouse gas emissions to less than half its 2005 level by 2050. In January 2023, the legislature adopted amendments to the law, now renamed the Climate Change Adaptation Act, which defines achieving carbon neutrality by 2050 as a national goal. As a short-term goal, the Ministry of Economic Affairs has pledged to expand renewable energy sources to 20% of electricity production by 2026. While the amended act includes provisions on how to achieve this goal, including the promotion of domestic negative emissions technologies, international cooperation and a carbon tax scheme, the details for implementing these regulations have not yet been developed.

The reduction of carbon dioxide emissions – which have remained at the same level since 2005 – is 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 after the Fukushima disaster in 2011. Despite a 2018 referendum vote against ending nuclear power in Taiwan, the DPP government remains determined to proceed with the phase-out. In a subsequent referendum in late 2021, a proposal to resume construction of a fourth nuclear plant, which was halted in 2015, was narrowly rejected. To compensate for the decrease in power supply, the administration has suggested expanding Taiwan's coal-fired power plants, prompting significant protests from environmental groups. Currently, no solution has been found to ensure Taiwan's power supply once nuclear power production is phased out.

Taiwan's global ranking in the Environmental Performance Index (EPI) declined from 40th in 2020 to 74th in 2022. The decline, however, was relative to the other countries in the ranking and does not constitute an absolute decline in environmental policy. In fact, the country performs considerably better than most countries in the region, ranking sixth out of 25 states in Pacific-Asia, and ninth out of 27 countries rated as emerging markets. According to the EPI, Taiwan performs well in environmental health, such as air and drinking water quality and heavy metal pollution, but lags behind in combating climate change and issues related to preserving its ecosystem's vitality, such as ensuring biodiversity and reducing the use of pesticides in agriculture.

Taiwan has a highly developed education system with high-quality secondary and post-secondary education, as well as vocational training, reflecting the significance of education in a society still heavily influenced by Confucian values. In 2021, Taiwan reported a literacy rate of 99%. Gross enrollment rates were 96.1% (up from 94.2% in 2019) for all levels of education and 89.8% (up from 85.2% in 2019) for tertiary education, which is notably high compared to international figures. 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 2021, nearly all junior high school graduates pursued further studies, including academic senior high school or vocational training in technical high schools. Additionally, 37.0% of Taiwan's population aged 15 and above had obtained a college or university degree.

Education policy aims to maintain and improve Taiwan's educational standards. In April 2017, the training and qualification requirements for preschool educators were formalized. School curricula are continuously reformed to align with international developments, despite the challenge of moving away from the tradition of rote learning at the primary and secondary levels. However, Taiwanese pupils consistently rank among the top performers in international comparative tests. According to the most recent PISA test published in 2019, Taiwan's 15-year-old students ranked 8th overall, 5th in mathematics, and 10th in science. In September 2021, the government promulgated a draft of the Bilingual 2030 program, which aims to promote English as an official language and strengthen English communication skills among Taiwanese.

Total expenditures for education were 4.50% of GDP in 2021, which is not particularly high by international comparison, given the fact that Taiwan is an industrialized nation where a good education is of pre-eminent significance. However, education accounted for about 20.3% of all government expenditures in 2021, making it the second-largest line item in Taiwan's government budget after social welfare.

R&D is a major concern for Taiwan's natural resource-poor economy and has long been a policy priority. The Taiwanese government manages 13 science parks spread out over the island, which offer infrastructural hardware and services to high-tech firms. It focuses its resources on developing cutting-edge technologies like nanoscience and nanotechnology, intelligent electronics, cloud computing, genomic medicine and biotechnology. The government's Forward-Looking Infrastructure Development Program Next includes significant investments in Taiwan's digital infrastructure and human capital. In addition, the second Tsai administration launched a number of small, targeted initiatives to improve Taiwan's R&D environment. These include a plan to cultivate local and recruit international talent, an innovation scheme to expand the country's biomedical industry, an emerging

Education policy /
R&D

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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 to further consolidate Taiwan's position as a research and production hub for IT technology.

R&D spending is high compared to international standards, with overall expenditures at 3.63% of GDP in 2020, of which 16.8% was government-funded. In the 2019 World Economic Forum's Global Competitiveness Report of 140 countries, Taiwan ranked fifth in overall R&D expenditures and third in patent applications, making the country seventh in the research and development category.

Governance

I. Level of Difficulty

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

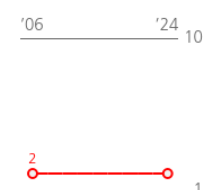
However, Taiwan is a small island country; roughly two-thirds of its landmass is mountainous, and the country is handicapped by a high exposure to natural calamities, as typhoons and earthquakes hit the island every year and tax the government's administrative capabilities and financial resources. Moreover, Taiwan is almost completely dependent on energy imports, which leaves it vulnerable to external shocks, especially potential disruptions caused by a conflict with China. An increasingly pressing problem is Taiwan's aging population. For a long time now, Taiwan has had one of the lowest birth rates across the globe. Since 2020, Taiwan's total population has experienced net declines. The country is projected to become a super-aged society, with 20% of its population aged 65 or older, within the next three years. Taiwan's main structural constraint is its diplomatic isolation and China's de facto veto power concerning its participation in the international community as a sovereign state. This significantly impedes the self-determined management of international relations and limits its political and economic space. During the review period, China further ramped up its pressure, greatly increasing the number and intensity of military incursions into Taiwanese air and sea space, conducting military maneuvers off Taiwan's coasts, putting pressure on Taiwan's few remaining official diplomatic allies, and engaging in "cognitive warfare" and cyberattacks.

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

Today, Taiwan has one of the most vibrant civil societies in Asia, characterized by numerous NGOs engaged in a vast range of public activity. Ideological polarization and division concerning issues of national identity and Taiwan's relationship to China still play a role and, at times, impact negatively on the state-society relationship.

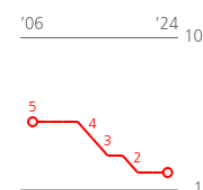
Structural constraints

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Civil society traditions

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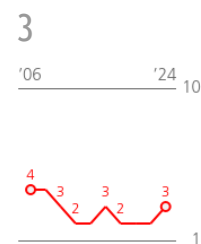


However, the Sunflower Movement of 2014 not only gave Taiwan’s civil society a new push and political relevance but also proved the political system’s ability to react to articulated grievances and channel them through political competition in the party landscape in the form of the emergence of the New Power Party as a self-declared alternative “third force” to the two main party camps. The impact of the Sunflower Movement is not limited to party politics, however, as demonstrated by independent free software programmer and Sunflower activist Audrey Tang becoming Minister of Digital Affairs in the Tsai administration.

Based on the latest available World Values Survey (2019) data, almost 70% of all respondents in Taiwan express the opinion that one needs to be “very careful” in dealing with people. Yet, this relatively low degree of reported interpersonal trust does not undermine the overall strong social bonds, variety of existing networks of mutual support and high levels of social responsibility 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 cleavage within society concerning 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 inter- and intraparty competition and zero-sum politics. In addition, this divide has provided a fulcrum for China’s divide-and-rule strategies that aim to weaken political cohesion and set political parties against each other. While far from the state of pernicious polarization observable in some other countries, conflict intensity has slowly but clearly increased, affecting regional and international politics and making it increasingly more difficult to develop consensus-oriented political solutions to Taiwan’s most pressing political challenge – the island’s relationship with Mainland China.

Conflict intensity



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 government aims mainly to improve living conditions and social participation, especially for disadvantaged groups such as the poor, women and children, indigenous peoples and LGBTQ+ groups. The administration's main economic goal is to ensure robust growth and development while reducing Taiwan's economic dependence on China and 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.

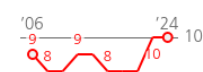
In practice, however, the government's ability to implement carefully set strategic priorities has been limited due to China's de facto veto power over Taiwan's foreign policy ambitions and the considerable polarization in Taiwan's public sphere concerning the best approach to dealing with Beijing's direct and indirect political and economic influence. The latter issue continues to dominate the 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 review period in which the Tsai Ing-wen administration was able to set and quickly adapt policy priorities. Pronounced factional struggles within the DPP, for instance, regarding the direction of constitutional reform, have not significantly reduced the government's ability to prioritize.

As Taiwan's market economy and democratic order are already well developed, any assessment concerning the implementation efficiency of the government's domestic priority policies starts from an advanced vantage point. Moreover, the day-to-day implementation of political decisions by Taiwan's differentiated and professional administration works well, and there have been no cases of serious administrative obstruction or bureaucratic foot-dragging. Throughout the review period, conditions for effective and efficient implementation have been excellent, with the DPP controlling the presidency and parliament.

Question
Score

Prioritization

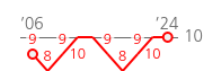
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Implementation

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

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

The Taiwanese government's response to the COVID-19 pandemic, which is considered one of the most successful in the world, is a direct result of political and administrative learning from the 2002/03 SARS pandemic, which revealed the weaknesses in Taiwan's disease control system. Throughout the pandemic, the government repeatedly updated its various relief and support programs to further improve the effectiveness of its disease-containment measures and cushion the socioeconomic impact of the pandemic. Similarly, in other areas of state activity, effective learning and adaptation took place, for instance, following the collision of a passenger train with a truck in April 2021, which killed 50 and injured more than 200. After the disaster, President Tsai initiated a comprehensive overhaul of the Taiwan Railways Administration.

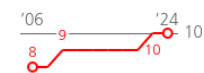
15 | Resource Efficiency

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

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

Policy learning

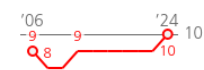
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Efficient use of assets

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Taiwan's public sector makes efficient use of taxpayers' money. Representing 15.5% of GDP in 2021 and a projected 15.1% in 2022, government consumption is relatively low compared to other highly developed countries. State budgets tend to be balanced. Taiwan's outstanding total public debt (measuring non-self-redeeming debts across all levels of government) is projected at 32% of GDP at the end of 2022, up from 30.1% in 2021, but close to the 2020 figure. This includes additional debts that were incurred to fund the special budget in response to the COVID-19 pandemic. It is well below the 40.6% debt ceiling mandated by the Public Debt Act. Effective auditing is ensured by the Ministry of Audit under the Control Yuan, an independent policy body headed by an auditor-general nominated by the president and appointed by the Legislative Yuan. Budget planning and implementation are transparent, and both the individual ministries as well as the cabinet-level Directorate General of Budget, Accounting and Statistics (DGBAS) publish a wide range of data on expenditures and programs.

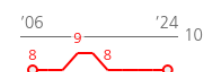
Taiwan's resource efficiency is reflected in its good showing in international indexes. For instance, it ranked 12th out of 141 in the most recent Global Competitiveness Index (2019), which includes, among other indicators, government efficiency. According to the International Institute for Management Development's World Competitiveness Yearbook, Taiwan ranked eighth globally in terms of government efficiency in 2022.

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

Structurally, Taiwan's semi-presidential system of government is best prepared for policy coordination when the president and the parliamentary majority are controlled by the same party but weakens the likelihood of coordination in times of divided government. With the DPP controlling both the presidency and a majority in the Legislative Yuan, political coordination has been rather smooth during the review period, and the government has been able to pursue its political aims and make good on its campaign promises.

Policy
coordination

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Taiwan possesses a well-developed framework of strict and stringently enforced anti-corruption regulations that target commercial corruption between private enterprises and 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” that have been passed since the early 1990s, including the Anti-Corruption Act, which was last amended in June 2016. Political corruption is targeted by the Public Functionary Assets Disclosure Act of 1993, which requires the declaration of all income and assets by high-ranking officials and elected representatives. The 2004 Political Contribution Act limits political donations and makes campaign financing more transparent. A lobbying act implemented in August 2008 requires lobbyists to register their activities and local government officials and elected representatives to inform their responsible agencies of their communication with lobbyists. The 2011 Anti-Corruption Informant Rewards and Protection Regulation put in place a framework to protect whistle-blowers reporting corruption and defines rewards for informing the authorities of corruption cases.

All government agencies at all levels of the administration have rules of conduct to prevent corruption and office abuse. A number of different agencies are involved in planning, organizing and enforcing the densely knit legal anti-corruption framework. The Ministry of Justice’s Investigation Bureau, for instance, is tasked with preventing and investigating vote buying, money-laundering, counterterrorism 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 an Agency Against Corruption (AAC) in July 2011 under the Ministry of Justice to make the prevention, investigation and prosecution of corruption more effective. The Control Yuan, a specific 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 the public are very sensitive to instances of political corruption and regularly play a role in exposing officeholders who have allegedly misbehaved.

Small-scale bribes to speed up administrative procedures and local vote buying remain a problem in Taiwan but are considered an inherent part of local political culture rather than corruption. According to AAC data, in 2022, district prosecutors’ offices initiated 386 cases of corruption involving 1,237 individuals. Small numbers of individual cases of vote buying are reported in all elections, but offenders are prosecuted and there is a constant tension between the legal struggle against this practice on the one hand and its perceived inevitability as a social institution on the other. In relation to the December 2022 local elections, law enforcement officials investigated 8,859 bribery cases in total, among which 6,200 cases involved election bribery and 304 cases election violence.

Anti-corruption policy

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Compared to political corruption, commercial corruption is less stringently regulated and receives less public attention. Big business and politics remain closely intertwined, and especially in public procurement, bribery of government officials and diversion of public money to private companies are reported. In recent years, Chinese government organizations have been accused of funding Taiwanese candidates opposing Tsai and the DPP through Taiwanese businesses operating on the Mainland.

16 | Consensus-Building

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

There are no anti-democratic veto actors in Taiwan.

The overall fierce and zero-sum tendencies of political competition in Taiwan lead to polarized discourses 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 that sometimes turn violent; the use of referendums and recall motions by local officials primarily for partisan gains; the politicization of COVID-19 relief and vaccination policies; and both parties accusing the other of having ties to criminals in the run-up to the 2022 nine-in-one local elections.

Smear campaigns in the lead-up to the local and then, expectedly, in the national election, further deepened the cleavage, polarizing Taiwan’s political scene and further exaggerating the division between parties.

However, the most serious substantive domestic cleavage remains cross-strait relations, which constitute 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 of unification with China has increasingly turned into a conflict on the scope, context and strategic timing of managing cross-strait policies

Consensus on goals



Anti-democratic actors



Cleavage / conflict management



and economic integration with the Mainland, while maintaining Taiwan's de facto sovereignty. In the first half of 2021, the government's focus on combating the COVID-19 pandemic contributed to muting the ideological conflict to some degree. Nonetheless, divergence on the approach 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 opposing parties.

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

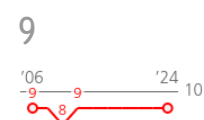
Moreover, the political system is sufficiently open to allow the direct political participation of civil society through the creation of new parties such as those that have formed out of the activist groups of the 2014 "Sunflower" protest movement, most notably the New Power Party (NPP), which won five out 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.

The government sponsors regular meetings with civil society leaders and invites them to national conferences on particular problems regarding economic and social development, environmental protection and educational reform. Since 2019, the Tsai administration has been working on an Open Government Action Plan to enhance transparency, accountability and participation of enterprises and civil society organizations in government.

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, thus making it difficult for politicians from rival camps to discuss things in a peaceful manner. Consequently, civil society participation is still conditioned to some degree by who is governing, though it is institutionalized at a high level.

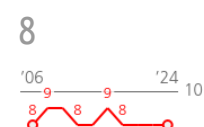
The conflict between Mainlanders and Taiwanese (culminating in the "2-28-incident" of February 28, 1947, when troops brutally suppressed a popular anti-government uprising) and the crimes of the KMT regime during the "White Terror" era in the 1950s and 1960s were addressed during the 1990s and 2000s. Nonetheless, supported by academics and vocal civil society activists, reconciliation and transitional justice remain on the agenda for the DPP. Most institutional steps toward transitional justice, for instance, the passing of several legal acts promoting investigations into the authoritarian era, as well as the establishment in 2017 of a cabinet-level, temporary Transitional Justice Commission (TJC), had already been taken early in President

Public
consultation



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Reconciliation



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Tsai's first term in office. Although the TJC was rocked by scandals in the first year of its existence and its work was criticized by the KMT as a political instrument to weaken the opposition party, the TJC addressed a range of historical injustices until its dissolution in May 2022. Its activities included collecting and disseminating information on victims of authoritarian rule, overruling court martial cases, compensating victims of the White Terror and inquiries into the huge assets the KMT accumulated during the martial law period. The DPP government pledged to continue transitional justice measures as part of a broad, human rights-promoting policy after the commission's dissolution. The functions that were previously shouldered by the TJC were entrusted to various ministries and government agencies. The Ministry of Health and Welfare, for instance, will be charged with organizing psychological trauma treatment for White Terror victims and their families. The Ministries of Education and Justice will set up programs to strengthen human rights education in schools. Civil society activists' repeated demands to banish the remaining symbols of the authoritarian past from Taiwan's public sphere, such as removing all remaining statues of former dictator Chiang Kai-shek from public spaces, renaming Chiang Kai-shek Memorial Hall and designing new banknotes without the former authoritarian leader's portrait, have not been pursued during the review period. 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.

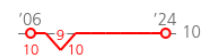
17 | International Cooperation

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

Taiwan's integration into the international community is constrained by China's strict stance on banning the country's access to all international organizations that are based on the principle of national sovereignty. Even before the beginning of the COVID-19 pandemic, for instance, Taiwan has repeatedly asked for participation in the WHO and the World Health Assembly (WHA), which 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

Effective use of support

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community, the country has earned a reputation for high credibility and reliability in implementing necessary market reforms. Since its accession in 2002, Taiwan has smoothly integrated into the WTO framework to facilitate global trade. It implements WTO rules well.

Efforts by the previous KMT government to enlarge Taiwan’s “international space” through its conciliatory cross-strait policies have predominantly failed to entice Beijing to change its stance. Since the DPP government took office in 2016, China has effectively frozen cross-strait relations and further ramped up its pressure on partner countries to cancel diplomatic relations with Taipei. The review period saw the number of Taiwan allies dwindle further, after Nicaragua terminated diplomatic ties with the country in December 2021. As of January 2023, only 14 countries, mainly island nations in the Pacific and small nations in the Caribbean and Central America heavily reliant on foreign aid, and the Holy See, maintain official diplomatic relations with Taiwan.

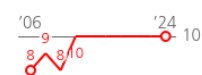
Within these constraints, Taiwan continued to make the most of and deepen its existing ties with its official and unofficial allies. After initial worries among some Taiwanese that the United States under President Biden might turn “soft on China,” the relationship with the United States, Taiwan’s most important international partner, has further strengthened. This strengthening included President Biden’s repeated confirmation that the United States would defend Taiwan in case of a Chinese attack, arms sales to modernize Taiwan’s armed forces and increased defense cooperation, high-profile visits by U.S. politicians, including House of Representative Speaker Nancy Pelosi, and inclusion of Taiwan in the United States’ multilateral political initiatives, such as President Biden’s December 2021 virtual Summit for Democracy. Taiwan also strengthened cooperation with its regional, Latin American and European partners. In April 2021, for instance, the Legislative Yuan passed a bill to establish a mutual legal assistance pact with Belize. In fall 2021, Lithuania and Taiwan opened unofficial representative offices, with Taiwan’s office in Vilnius the first to have the name “Taiwan” in its title.

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 a political partner and engaged donor of development aid and humanitarian assistance.

Under President Tsai’s predecessor, Ma Ying-jeou, Taiwan abandoned “dollar diplomacy” as a means to trade financial support for international recognition, both for reasons of low effectiveness in the face of China’s expansive loan and foreign investment strategy and due to severe domestic public criticism. This has led to the further dwindling of Taiwan’s remaining, mostly foreign aid-dependent diplomatic

Credibility

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allies. Tensions across the Taiwan Strait have been high since the DPP came to power in 2016, with China enforcing its attempts to limit Taiwan's international space. During the review period, Beijing further ramped up its pressure on Taiwan and its international allies. Despite being excluded from the WHO, Taiwan has continued to effectively and reliably contribute to international efforts to combat the COVID-19 pandemic, which includes the exchange of knowledge, as well as the distribution of medical material with diplomatic allies, the United States, the European Unions, Japan and partners of the New Southbound Initiative.

Taiwan is involved in complex territorial disputes with neighboring China and Southeast Asian countries over control of the uninhabited, resource-rich (fish, petroleum, natural gas) Spratly and Paracel Archipelagos in the South China Sea. The Tsai government's main international initiative has been the New Southbound Policy, which aims to reduce Taiwan's reliance on China's market and foster cooperation with Taiwan's neighbors in the Asia-Pacific region, primarily with ASEAN nations, as well as with Australia and New Zealand. Its main instruments are promoting economic collaboration, two-way exchanges of qualified workers, increased collaboration in multiple sectors, including tourism, technology and businesses, and strengthening Taiwan's bilateral and multilateral regional integration. To further strengthen its economic integration, Taiwan officially applied in September 2021 to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), fulfilling one of President Tsai's core economic policy objectives.

The main issue in Taiwan's international cooperation continues to be its relationship with Mainland China, which continued to deteriorate during the review period. President Xi repeatedly stated his goal of unifying Taiwan with the Mainland, if necessary by military force, and the Chinese People's Liberation Army increased its military operations around Taiwan. Nonetheless, expanding Taiwan's international cooperation and integration is a core political goal of all the country's administrations. Acting within the limits imposed by Beijing's refusal to allow Taiwan to participate in international political organizations, Taiwan is still a strong advocate of and 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"). During the review period, Taiwan also continued its active involvement in supporting international efforts to combat the COVID-19 pandemic through bilateral and multilateral channels.

Furthermore, in the face of increasing pressure from China and the deterioration of relations between Beijing and many Asian and Western nations during the review period, Taiwan has continued to deepen existing political ties to its official and unofficial allies, including robust parliamentary diplomacy and outreach. In April 2021, for instance, the Legislative Yuan set up a new Congressional Diplomacy and Strategy Consensus Committee, which includes lawmakers from all parties and aims

Regional
cooperation

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to work with Taiwan's international partners to foster defense collaboration and expand the island country's international participation. In addition to bolstering already close ties with the United States and regional partners, such as Japan and Australia, Taiwan intensified its connections to European countries during the review period, especially to small, Eastern European nations such as the Baltic countries, Slovenia and the Czech Republic. Following Russia's full-scale invasion of Ukraine in February 2022, Taiwan has joined the West in imposing sanctions on Russia and has delivered financial and material support to the Ukrainian government, for instance, by sending electricity generators to Kyiv. Taiwan also continues to improve its international status through "soft power" cultural initiatives such as setting up Mandarin training centers in partner countries as a counterweight to the Mainland's Confucius Institutes.

Strategic Outlook

In terms of domestic political developments, competition will heat up prior to the January 2024 presidential elections, in which incumbent President Tsai is not permitted to run for a third term. In addition to the DPP government's performance and Taiwan's economic health in a still-strained global economic environment, the outcome of the elections will depend on the ability of the KMT to develop an alternative strategy to manage cross-strait relations attractive to an electorate that overwhelmingly prefers maintaining the status quo. The DPP government, which continues to have a comfortable majority in the Legislative Yuan, will need to address the two most pressing, unsolved domestic political challenges determining Taiwan's future chances for socioeconomic development: the country's energy insecurity, which is only set to increase after phasing out nuclear energy in 2025, and the effects of Taiwan's rapidly aging population.

Above all, however, cross-strait relations will continue to dominate Taiwan's political, social and economic development in the immediate future. The objectives of China and Taiwan are ultimately incompatible: China seeks eventual unification and Taiwan wishes to maintain its sovereignty (or *de facto* independence). This fundamental contradiction makes the Taiwan Strait a perennial hotspot in the regional security architecture and one of the most likely spaces for conflict between China and the United States. In this context, it is unlikely that relations between Taiwan and China will improve before the 2024 presidential elections, and much will depend on factors beyond the control of Taiwan's decision-makers.

To China, the "Taiwan question" will continue to be a matter of national relevance and will become increasingly significant as Beijing feels pressured to adopt aggressive nationalist policies by domestic crises or due to confrontations with the United States. U.S. officials have repeatedly voiced concerns that the Chinese People's Liberation Army might attempt to forcefully unify Taiwan with the Mainland by 2027, or even earlier. But even if Beijing never attempts a military invasion, the PRC is likely to continue using numerous instruments to maintain pressure on Taiwan over the next few years. These include military maneuvers in the sea lanes and airspace around Taiwan, cyberattacks, intelligence operations, ramping up social and traditional media campaigns to spread misinformation, heighten polarization and undermine trust in the government, and further pressuring Taipei's remaining diplomatic allies to end formal relations.

Taiwan's enduring, amicable – if not always straightforward – relationship with the United States remains a close second in terms of importance and potential impact on the country's political and economic development. While the Biden administration can be expected to continue its Taiwan-friendly stance, including symbolic political gestures, training and cooperating with Taiwan's armed forces, and supporting Taipei's inclusion in bilateral and multilateral political and economic initiatives, and cooperation frameworks and equipping, the November 2024 U.S. presidential elections are likely to affect its policy toward Taiwan.

In light of its relatively limited latitude for unilateral action, the Taiwanese government is probably best advised to continue its current course of diversifying its economic ties with other trading partners in the region and globally, strengthening its political connections below the level of official diplomatic ties. This includes a continuation and expansion of its ongoing parliamentary diplomacy activities, as well as solidifying its international position as a reliable cooperation partner.