

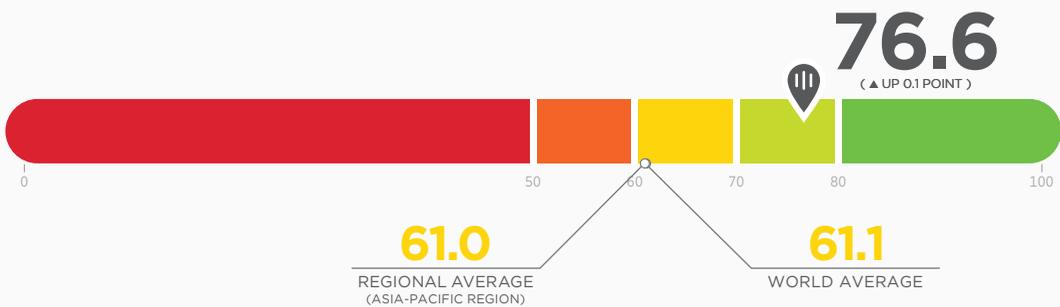
TAIWAN

Taiwan's economic freedom score is 76.6, making its economy the 13th freest in the 2018 *Index*. Its overall score has increased by 0.1 point, with a lower score for **investment freedom** offset by a significant improvement in **fiscal health**. Taiwan is ranked 5th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

A relatively well-developed commercial code and open-market policies that facilitate the flow of goods and capital have enabled small and medium-size enterprises to become the backbone of Taiwan's expansion. A sound legal framework protects property rights and upholds the rule of law. To achieve its goal of reducing dependence on China by increasing commerce with other Asian countries, Taiwan will need to make more reforms to increase competition and openness by, for example, reducing the state's "strategic" involvement in the export sector and opening the fragmented financial sector.



ECONOMIC FREEDOM SCORE

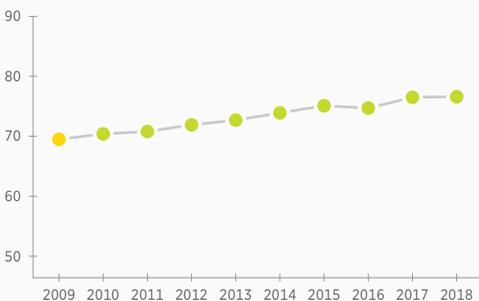


NOTABLE SUCCESSES:
Business Freedom, Fiscal Health, and Government Spending

CONCERNS:
Labor Freedom, Investment Freedom, and Financial Freedom

OVERALL SCORE CHANGE SINCE 2014:
+2.7

FREEDOM TREND



QUICK FACTS

POPULATION:
23.5 million

GDP (PPP):
\$1.1 trillion
1.4% growth in 2016
5-year compound annual growth 2.1%
\$48,095 per capita

UNEMPLOYMENT:
4.0%

INFLATION (CPI):
1.4%

FDI INFLOW:
\$8.3 billion

PUBLIC DEBT:
35.4% of GDP

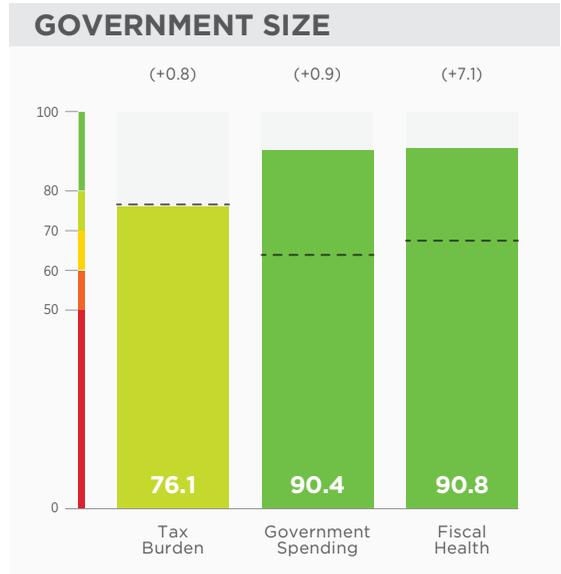
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Taiwan's dynamic multiparty democracy was established under a 1947 constitution drawn up for all of China. Its economy is one of the wealthiest in Asia. The Democratic Progressive Party returned to power when Tsai Ing-wen was elected president in 2016. Taiwan relies heavily on its economic relationship with China but has shown resilience in the face of Chinese economic pressure. It still enjoys diplomatic recognition from 20 small countries and has representative offices in 58 others. Taiwan's dynamic capitalist economy is driven largely by industrial manufacturing, especially exports of electronics, machinery, and petrochemicals. Major long-term challenges include diplomatic isolation, a low birth rate, a rapidly aging population, and increasing competition from China and other Asia-Pacific markets.

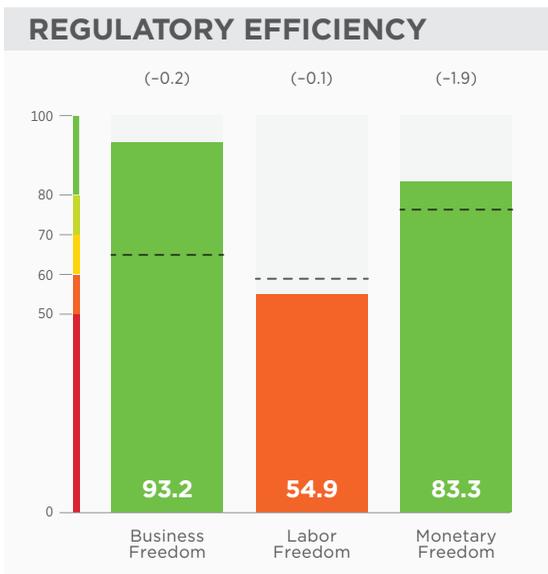
12 ECONOMIC FREEDOMS | TAIWAN



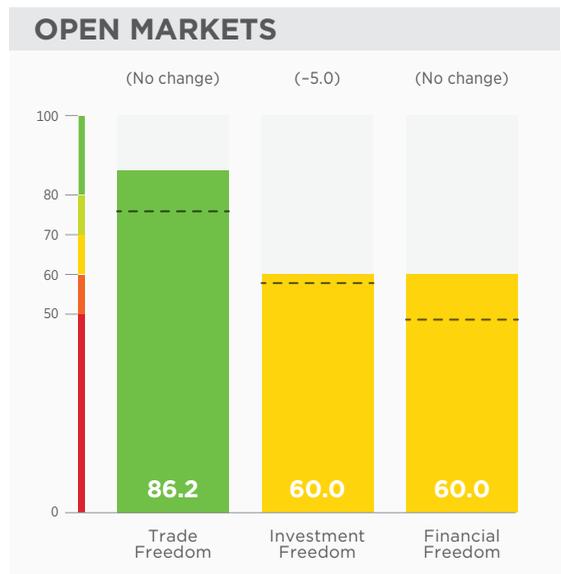
Contracts and interests in property are enforced, and Taiwan maintains a reliable recording system for mortgages and liens. The judiciary is independent, and the court system is largely free of political interference. Although corruption has been reduced, it remains a problem. Politics and big business are closely intertwined, and this leads to malfeasance in government procurement.



The top personal income tax rate has been raised to 45 percent. The top corporate tax rate is 17 percent. Other taxes include value-added and interest taxes. The overall tax burden equals 8.7 percent of total domestic income. Over the past three years, government spending has amounted to 17.8 percent of total output (GDP), and budget deficits have averaged 2.1 percent of GDP. Public debt is equivalent to 35.4 percent of GDP.



The regulatory environment is relatively transparent, but some regulations can be excessive or unevenly applied. Low wage growth has made talent recruitment and retention challenging for some businesses. Amendments to the Labor Standard Act have added to labor inflexibility. Taiwan law mandates price controls on electricity and salt, and the government regulates prices for fuels and pharmaceutical products. Other prices are largely determined by the market.



Taiwan's average applied tariff rate is 1.9 percent. Nontariff barriers impede some trade. In general, government policies do not significantly interfere with foreign investment. The financial sector offers a wide range of products and services but remains fragmented and susceptible to state interference. Renminbi-denominated financial services have been growing steadily since 2013.