

Taiwan

Status Index (Democracy: 4.6 / Market economy: 4.6)		9.2	Management Index		6.9
System of government	Presidential-parliamentary democracy		Population	22.3 mill.	
Voter turnout	82.69 % (Presidential election)		GDP p. c. (\$, PPP)	22,760	
Women in Parliament	22.2 % (2000)		Arbeitslosenquote	2.99 %	
Population growth^a	0.8 %		HDI	0.891	
Largest ethnic minority	n. a.		UN Education Index	n. a.	
			Gini Index	32.6 (2000)	

Data for 2000 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2000. Sources: www.dgbas.gov.tw, www.cepd.gov.tw, www.economist.com, www.gio.gov.tw.

1. Introduction

In 2000, Chen Shui-bian became the first opposition party candidate in Taiwan's history to be elected president. In the wake of the country's first direct presidential election, held in 1996 and won by Lee Teng-hui, this clearly signals the island's successful transformation to democracy. During the period under study, this export-oriented state faced difficult economic conditions, coupled with a political stalemate caused by the unclear division of powers between the president and the Legislative Yuan (Taiwan's parliament); as a result, the pace of transformation flagged.

Progress was achieved in certain areas; for example, social insurance programs were expanded, mitigating social problems such as unemployment. Another very important step was Taiwan's entry into the World Trade Organization (WTO). This gave added impetus to the privatization of large state enterprises and to the opening of insulated market sectors, but beyond that it carried major symbolic weight for a country that only a few states recognize as a sovereign entity. Power constellations in the media were further disentangled, and the battle against corruption gained ground.

In view of the difficult political situation, therefore, managerial achievements in Taiwan can be described as considerable. However, both the country's political elite and its civil society have lessons to learn at all levels before their political behavior conforms in breadth and depth to the standards needed in order to consolidate these advances for the long term. The relationship with the People's Republic of China will remain problematic; if the status quo is to be maintained;

all those involved—no matter what their political affiliations—must exercise great skill in domestic politics and acute sensitivity in foreign affairs.

2. History and characteristics of transformation

In Taiwan, political transformation took a back seat to economic transformation. The foundations of an economically and socially functional organization of the market and competition were laid in the 1950s under the authoritarian leadership of Chiang Kai-shek, with agricultural reforms and the development of light industry. However, the state still intervened in economic affairs—for example, through import substitution to protect domestic industry against foreign products. During decades of authoritarian rule, Taiwan moved closer to a social market economy, and rudimentary social insurance systems were established.

The real democratic transformation began in 1986. The opposition party founded on September 28—the Democratic Progressive Party (DPP)—was the first such party to be tolerated, and on October 15 of that year the leaders of the governing Kuomintang (KMT) decided to lift the state of emergency and end the prohibition on founding other parties. From 1986 to 1996, Taiwan completed this transition to democracy, marked by political reforms in the ruling KMT and incipient efforts to form parties within the opposition movement.

A series of far-reaching domestic policy reforms began in 1987. Restrictions on founding and publishing newspapers were lifted; freedom to assemble and demonstrate was established by law; visits to relatives in mainland China were permitted; new elections were held for all seats in the Legislative Yuan and the National Assembly; the state of emergency was officially ended; and the constitution was amended to provide for direct election of the president, vice president, governor of Taiwan, and mayors of Taipei and Kaohsiung.

These changes are all milestones along Taiwan's road to a fundamentally functional democracy. In the process, President Lee Teng-hui managed to hold his ground against adversaries within the KMT, and the influence of the military was curtailed. In the phase of formal consolidation of democracy from 1996 to 2000, public offices at all levels were filled by elections. The first political transfer of power by election and the transfer of the presidency to Chen Shui-bian, the candidate of the former opposition party (DPP), in 2000 mark the official conclusion of Taiwan's democratization. Taiwan can now be considered a consolidated democracy.

Taiwan's market economy transformation into a burgeoning industrialized country took place in several stages. From the 1950s through the mid-1960s, a policy of import substitution prevailed following successful agrarian reforms, supported by American economic aid amounting to about \$100 million per year between 1951 and 1965. In addition, an important and successful strategic shift

came at the start of the 1960s: The policy of import substitution, with high protective tariffs to limit international competition, was supplemented by a government-supported strategy of export-oriented development.

From the start of the 1970s, building on this foundation of a functioning agriculture sector and increasingly export-oriented industrialization, Taiwan's labor-intensive economy evolved into a capital- and technology-intensive economy. In the process, the autocratic KMT leadership laid the economic foundation for its own loss of political legitimacy. Slowly at first, but with increasing rapidity into the 1980s, its hold on power loosened. Economic success bred a self-confident and well-educated middle class that demanded political participation and, after 1987, organized its energy in various social movements (women's rights, environmental protection and so on).

The Asian economic crisis at first had little effect on Taiwan—merely a slight devaluation of the Taiwanese dollar—in part because its economy depended largely on small and medium-sized enterprises, its national debt was low, and its banking system was quite efficient. Recent years have seen a massive relocation of labor-intensive production to the People's Republic of China, although the DPP as well as former President Lee Teng-hui have cautioned against excessive dependence on the mainland.

In 2001, under poor global economic conditions, Taiwan experienced a recession (-1.91 %) for the first time since 1949; the unemployment rate also reached an all-time high (4.58 %). Improvements to the social-insurance system did mitigate some effects of this downturn, but problems remain because the government's lack of a clear political majority weakens its ability to act. Even though the KMT lost control of the Legislative Yuan for the first time, in the 2001 parliamentary elections, the opposition—the “blue camp,” comprising the KMT, the People's First Party (PFP) led by charismatic former governor James Soong, and the small New Party (NP)—still holds a majority in the Legislative Yuan.

3. Examination of criteria for democracy and a market economy

3.1. Democracy

In transforming its political regime, Taiwan has made progress in all evaluated areas; serious transformation shortcomings no longer exist. However, phenomena typical of older democracies—such as disaffection from politics and a lack of political and social engagement—are increasingly in evidence. Administrative systems are functional, and public safety and order are assured.

3.1.1 Political organization

(1) *Stateness*: Taiwan's status under international law remains unclear. However, in terms of the territory where Taiwan (the Republic of China, ROC) exercises its effective power, no problems of state identity exist; the state's monopoly on the use of force has been extended to the entire area under formal Taiwanese rule (Taiwan, Penghu, Matsu, Chinmen). The question of national identity, or rather the question Taiwanese vs. Chinese identity, still remains unclear. A majority of the population prefers to maintain the status quo that leaves the question of unification or formal independence open. Depending on the poll, only 5 % to 20 % of the population stated clearly that they preferred formal independence or a rapid unification while 50 % to 70 % wanted the status quo to remain. Indeed, for all parties the status quo seems to be the only realistic alternative and therefore definition of and affiliation to state population is not disputed.

(2) *Political participation*: General, free and fair elections, with the universal right to vote and to run for office, characterize political participation in Taiwan. The influence of organized crime on local party organizations, particularly on the KMT, still presents a problem, though Chen Shui-bian's government has introduced some measures to counter this negative trend. Elected officials have full power to govern. There are no longer any veto powers or political enclaves in the hands of the military.

The political parties and the military still exert major influence on the large television stations, though more than 100 private or foreign cable stations provide balance. Freedom of association and freedom of assembly are unrestricted under the basic democratic order. Union activities are partly constrained by laws limiting the right to strike. Freedom of opinion and press freedom are consistent with a basic democratic order; the only restrictions come from very extensive options to sue in cases of actual or supposed defamation.

Control of the media by the mainlanders and the attendant discrimination against other ethnic groups (Han Chinese natives of Taiwan, Hakka, indigenous people of Malay-Polynesian descent) have improved somewhat in recent years but still remain in place.

(3) *Rule of law*: The separation of powers among the executive, legislative and judicial branches is largely established. However, despite comprehensive reform efforts, Taiwanese courts cannot yet be described as completely independent. Corruption and political influence on court decisions still linger. Political and bureaucratic corruption receives a great deal of attention in the mass media and is prosecuted under criminal law. Members of Parliament, cabinet members, and members of regional and city parliaments have parliamentary immunity. Civil rights are not restricted, and those who violate them can be taken to court.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: All influential political and social actors accept democratic institutions as legitimate. However, institutional efficiency is hampered by the current model of “cohabitation”—that is, the president, a DPP leader from the “green” or “Taiwanese” camp (the DPP and the Taiwan Solidarity Union, TSU), is opposed in the Legislative Yuan by a majority from the “blue” or “pan-Chinese” camp (KMT, NP, PFP). During the period under study, Chen first tried to achieve formal cooperation by naming a prime minister, Tang Fei, from the ranks of the KMT. However, this approach failed, and the current Prime Minister, Yu Shyi-kin, is also a member of the DPP. With a minority government facing stubborn opposition in Parliament, this constellation has to some extent paralyzed the day-to-day business of politics.

(2) *Political and social integration*: A stable, moderate, socially anchored party system has developed in recent years and enjoys broad popular consent. The five existing major parties can be grouped into what are called the “blue” and “green” camps. Those parties in the blue camp tend to favor a one-China (pan-Chinese) policy, while advocates of greater Taiwanese independence gravitate to the green camp. Overall, the parties in the green camp have more of a social-democratic orientation, while a conservative current runs through the blue camp. One problem is that the parties have certain ethnic and regional ties; the DPP and TSU are strong mainly in the south, where the native Taiwanese live, while the KMT, and particularly its offshoots the NP and PFP, have strong backing from the mainlanders.

The network of interest groups is relatively close-knit. The unions are not particularly powerful, in part because small and medium-sized enterprises are so prevalent. Voter turnout, which generally ranges from 70 % to more than 80 %, highlights the population’s relatively strong interest in democratic decision-making processes. The importance of social movements, very high after 1987, has waned slightly. Traditional cultural influences that give particular weight to families and clans remain a tangible factor.

3.2 Market economy

Taiwan has made progress in transforming its economic order; however, shortcomings remain in the banking and financial sector, which is considered prone to crises and almost certainly carries a high burden of inadequately secured loans. While in other Asian countries the Asian crisis brought nonperforming loans to light, Taiwan still has more than 400 credit unions or farmers-and-fishermen credit cooperatives whose loans are probably at risk.

3.2.1 Level of socioeconomic development

The key indicators show a high level of development. Fundamental social exclusion is qualitatively minor and not structurally ingrained; however, discrimination against women in the workplace is normal (for example, women who marry or become pregnant lose their jobs), and an antidiscrimination policy is not well-developed. The percentage of women in politics is likewise relatively low, although Annette Lu became Taiwan's first female vice president in 2000 and the percentage of women in Parliament rose from 14.8 % in 1997 to 22.2 % in 2000.

3.2.2 Market structures and competition

In general, Taiwan has state-guaranteed rules of competition that are macroeconomically and microeconomically clearly defined, with largely equal opportunities for all market participants. The reason for Taiwan's relatively late entry into the WTO was not its fundamental economic structures, but the political situation that made it impossible for Taiwan to join before the People's Republic of China. State interventions in investment planning and foreign trade continue to drop sharply; only in issues related to economic integration with the People's Republic of China does the government, fearing excessive economic dependence, still impose restrictions. In recent years a few large state enterprises (for example, from the telecommunications sector) and state banks joined the ranks of privatized companies. The new Fair Trade Law (www.ftc.gov.tw), passed in 2002, targets both unfair competition and the formation of monopolies.

Foreign trade is largely deregulated. After Taiwan joins the WTO, industrial products will be subject to a nominal customs tariff of 4.15 %. Restrictions on some agricultural products were lifted. In addition, Taiwan has agreed to steadily dismantle nontariff barriers to trade. In October 2000, the Legislative Yuan passed a revised banking law that aims to bring Taiwan's banking system into conformity with international standards, increase minimum equity and govern mergers between financial institutions.

3.2.3 Stability of currency and prices

A consistent policy on inflation and the currency was pursued during the period under study. The central bank has been independent since the mid-1980s. The low rates of inflation during recent years reflect the government's stability-oriented economic policy. One problem is the increase in the national debt, which in 2001 was 6.6 % of the GDP; in this respect Taiwan is better off than Japan or India, but significantly worse off than South Korea, Singapore or Hong Kong.

3.2.4 Private property

Taiwan offers an adequate setting for a functioning private sector. The privatization of existing state enterprises and the telecommunications industry has proceeded and remains consistent with the goal of preventing oligopolies.

3.2.5 Welfare regime

State social services in Taiwan have expanded in recent years, though in general a strong emphasis persists on the family's role in providing security. Because Taiwan has relatively few large corporations, employer-provided insurance such as that seen, for example, in South Korea is lacking. An unemployment insurance system was developed for the first time during the period under study; it took effect in January 2003. Pension systems exist, although workers merely receive one lump-sum payment upon retirement. The health insurance system was greatly expanded during the period. While from 1950 on it covered only certain segments of the population (officials, government employees, blue-collar and white-collar employees of large enterprises), after 1998 universal health care coverage was required. Women have equal access to higher education and to public office.

3.2.6 Strength of the economic

Taiwan survived the 1997 Asian crisis relatively well, suffering fewer economic repercussions than other countries. In 2001, however, economic growth was negative for the first time, and problems clearly emerged in the banking sector. The government took pains to limit the exodus of the production industry over to China, but also to concurrently promote the high-tech sector as well. Certainly some growth potential remains untapped, but several indicators now bode well for improvement after the current crisis is resolved.

3.2.7 Sustainability

Taiwan still has a great deal of catching up to do in the ecological sector. In its first decades, the costs of environmental pollution were generally externalized. When the DPP took up the reins of government, a major rethinking of priorities began; one manifestation is the new authority given to environmental agencies. But the government's attempts to halt the construction of a fourth nuclear power plant were blocked by the Constitutional Court (the Council of Grand Justices).

The quality of health care in Taiwan is very high. Mechanisms to assist advancement are in place, especially for those ethnic minorities (including the indigenous population) who for decades faced discrimination. Primary and secondary education is almost entirely a state responsibility. At the post-

secondary level, private universities have increasingly sprung up alongside the many state universities, although the state imposes a cap on tuition. The state's expenditures for education for the period amounted to 5 % to 6 % of the GDP; this includes 4.5 % for research and development. The overall level of training, higher education, and research and development is considered high; efforts to further develop the high-tech sector, as well as the upsurge of new science parks, underscore the importance of this sector.

4. Trend

(1) *Democracy*: Taiwan's impressive transformation began even before the period under study, and the criteria of a state monopoly of violence, an effective administrative system, functional courts, and public safety and order were fully satisfied. The judicial system was further improved, especially to give the courts greater independence. The election of an opposition candidate as president illustrates how far democracy has developed in Taiwan.

The fight against corruption and a crackdown on vote-buying in elections likewise show progress. Slight advances were achieved even in the sensitive matter of Taiwan's imposition of the death penalty, though the number of executions per capita remains extremely high. Attempts by the justice minister to eliminate the death penalty met heated resistance from the opposition parties as well as from broad segments of the populace. Also troublesome is the unresolved question of whether Taiwan is more a parliamentary or a presidential system, particularly since the forces of the blue and green camps are approximately in balance. A functioning civil society developed in the years after 1987 and remains active despite a certain measure of disaffection from politics.

Progress has been achieved in the area of the press and other media, and the KMT's power over the most important broadcasting companies and newspapers has clearly waned, although independent major media are still few and far between. Unlimited access to private channels and international media, together with Taiwan's very high "e-readiness," makes a monopolization of political opinion rather unlikely.

(2) *Market economy*: Taiwan's entry into the WTO led to a greater diversity of institutional structures. State enterprises were privatized; tariffs were reduced; and nontariff trade barriers were dismantled. However, the standoff between Parliament and the president has tied the government's hands, and the global economic situation is poor; as a result, Taiwan's dynamic economic development has slowed. However, this does not mean that its policies have failed; therefore, a return to economic growth and dynamic development can be expected in the coming years.

Measured in terms of macroeconomic data, the pace of development has slowed and in some cases even come to a halt.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	Gini index	UN Education index	Political representation of women	GDP per capita (\$, PPP)
1998	0.874	0.870	n. a.	n. a.	n. a.	14.8 (1997)	19,990
2000	0.891	0.888	n. a.	32.6	n. a.	22.2 (2000)	22,760

Source: www.dgbas.gov.tw, www.cepd.gov.tw, www.dgbasey.gov.tw.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001	2002
Growth of GDP in %	4.6	5.42	5.86	-1.91	3.2 (est.)
Export growth in %	-9.4	10.0	22.0	-17.2	6.3
Import growth in %	-8.5	5.8	26.5	-23.4	5.0
Inflation in %	1.7	0.2	1.25	0	0
Unemployment in %	2.7	2.9	3.0	4.58	5.18 (est.)

Sources: www.dgbas.gov.tw, www.cepd.gov.tw

5. Transformation management

5.1 Level of difficulty

The economy's high level of development and good development structures—together with Taiwan's well-educated population, relatively balanced population distribution, established rule of law and efficient state administration—provided good conditions for continuing transformation at the start of the period. The activity of civil society subsided somewhat, perhaps because many of the protest groups' original concerns have found their way into government policy and legislation. Independent of this trend (an ebbing tide that could turn at any time, as in any functioning democracy), there is also evidence that society has become recognizably more flexible in addressing the cleavage between mainlanders and Taiwanese, though this persists and could intensify again depending on relations with the People's Republic of China.

Problems include the adverse economic situation (which even led to a recession), the increased unemployment rate, and the tense relationship between a directly elected president and Parliament.

5.2 Reliable pursuit of goals

The government's strategy included a strong push to improve social security—for example, by introducing unemployment insurance. Efforts to set the economy firmly back on a course of growth were, however, less successful, both because of domestic policy weaknesses and because of the export-oriented economy. The main problems are the transference of investment and human capital to the mainland and the structural change in the secondary and tertiary sector resulting thereof.

Further advances were made in democratization and in improving the judicial system. Though broad agreement prevailed within business and industry and in all political circles on the need to promote the high-tech sector, there were differences of opinion about the political desirability of relocating additional labor-intensive production to China. Business and industry also disagreed with the ruling DPP about such issues as direct flights across the Taiwan Strait. On the other hand, there are convincing signs of the further privatization of former state enterprises (also in the context of entering the WTO), while the reform of the banking sector is proving to be difficult.

5.3 Effective use of resources

The government uses available economic, cultural and human resources effectively to pursue its transformation policy. Budgets are audited efficiently, and the contribution of state expenditures to the GDP dropped from 14.32 % in 1998 to 12.95 % in 2002; however, the overall budget fell further into the red. The government provides public services that are optimally coordinated to the developmental needs of society and business.

The battle against corruption advanced, though scandals demonstrated that even the reputedly “clean” DPP ultimately fell short. Drawing on cultural heritage as a resource is difficult in Taiwan, because the questions of Chinese versus Taiwanese identity and therefore of historical consciousness are disputed not only among the various parties, but also within the population. However, the traditional willingness to learn and to assume responsibility within the family setting is actively drawn on to promote economic development and to reshape society.

5.4 Governance capability

Especially after Chen Shui-bian became president in 2000, the Legislative Yuan's policy of throwing up blockades hindered economic reform. Attempts to achieve cooperation by appointing a prime minister, Tang Fei, from the ranks of the KMT also failed. Powerful economic factions continued to torpedo the DPP's efforts to curb the expansion of economic relationships with China, as well as the DPP's efforts to promote investments in other countries. However, the political elite proved willing to learn, and despite the unclear power relationships, a few necessary economic reforms were pushed through. On the whole, however, the current administration lacks the political authority needed to implement reforms.

5.5 Consensus-building

On the whole, all the important parties share a broad consensus about building a (social) market economy. The Legislative Yuan's obstruction of individual government projects can also be interpreted as power plays that are normal in a democratic setting—especially in view of imminent or recent local elections. However, this has not completely crippled political freedom of action.

Attempts to solve general political problems with a raft of constitutional amendments seem questionable. There are no irreconcilable breaches within the society, although some political parties habitually operate along quasi-ethnic lines (Taiwanese versus mainlanders). A clear example is the NP, though that party quickly lost influence, even if its results in the recent local election in Taipei show that it can still attract and hold voters. Even the DPP and the TSU, the party of former President Lee Teng-hui, occasionally play the ethnicity card. But as a rule, the moderate forces in the DPP make an obvious effort not to frame arguments or pursue policies along such cleavages. The government persistently tries to maintain a fundamental willingness of citizens and social groups to act with solidarity. Thus, it has proceeded cautiously in introducing social-welfare legislation, seeking to minimize social disruptions.

Even before Lee Teng-hui left office, attempts were made to achieve reconciliation between the victims and perpetrators of past injustices, and it appears that the Taiwanese no longer consider themselves discriminated against as a group. By contrast, members of the third quasi-ethnic group, the Hakka, repeatedly complained that they were treated unfairly as the other two groups worked out their differences.

5.6 International cooperation

Politically, Taiwan has portrayed itself as a “pariah” of the world community. This makes its international economic contacts all the more important.

Particularly worthy of note in this regard is Taiwan's entry into the WTO. Politically, the government tries to improve its connections with other states, though this succeeds only at lower levels and the number of states that grant Taiwan diplomatic recognition has further declined.

The relationship with the People's Republic of China has not really improved; Chen Shui-bian himself is considered an advocate of Taiwanese independence, and the very outspoken statements of Vice President Annette Lu particularly annoyed the leadership in Beijing. In the economic sector, however, low-level tensions continued to simmer, though direct negotiations between Taiwan's Straits Exchange Foundation and the Association for Relations Across the Taiwan Straits (China) were repeatedly postponed.

Some observers worried that the DPP-led government—buoyed by repeated expressions of sympathy from the George W. Bush's administration—would rush ahead with an official declaration of independence, but this did not happen. Taiwan is working hard to preserve the status quo. Even if the next president were to come from the blue camp, this cautious strategy would probably not change significantly.

6. Overall evaluation

In view of the initial conditions, current status and evolution, as well as the key actors' management, this assessment of the transformation process in Taiwan arrives at the following concluding evaluations:

(1) Originating Conditions: At the start of the period under study, Taiwan had three decades of successful catch-up development to its credit, the ground rules of a market economy were in place, and the fundamental transformation to a consolidated democracy had been accomplished. The economic development achieved under authoritarian rule had significantly smoothed the path to transformation.

During the period under study, Taiwan proved that an opposition party could take up the reins of government, and the once-authoritarian KMT proved that it could transform itself into a democratic party after more than four decades of rule. The country has yet to resolve (1) its relationship to China and (2) the important question of whether reunification or independence should be its long-term goal (the main issue that determines whether a party aligns with the blue camp or the green camp, respectively).

(2) Current status and evolution: Democratic transformation gained ground during these four years, though some problems remain. The chief shortcomings are the political conduct of the DPP and KMT in their roles as governing and opposition party, respectively, and the ensuing risk of institutional stalemates

when the president lacks a majority in Parliament. An institutional balance between the president and Parliament must be created—not through yet another constitutional reform, but through a learning process among the political elite under existing constitutional structures.

The government has, however, apparently succeeded in pushing ahead with administrative reform, thinning a bureaucracy overstuffed with KMT personnel and curbing patronage and corruption somewhat, especially on the local level. Finally, the management of relations with the People's Republic of China poses a formidable challenge. Ultimately, the Taiwanese government must exercise patience and strive to maintain its autonomy without directly pursuing independence.

Building on four decades of successful economic development, the island's market-economy transformation successfully pushed ahead with membership in the WTO and the resulting dismantling of economic and trade barriers; customs tariffs were decreased, import regulations and quota abandoned. Still existing state monopolies, for example in the telecommunication sector, were successfully privatized. The government is without doubt interested in commencing this transformation policy and has taken corresponding measures.

(3) *Management*: Overall, Taiwan's transformation can be considered paradigmatic in three respects: It proves that transformations to democracy can be triggered not only by economic failure, as was the case in the formerly communist systems of Central and Eastern Europe, but also by the economic successes of an authoritarian regime. At the same time, it underscores the necessity of compatible structural prerequisites and the importance of the elite's conduct to the success of such transformation processes. Finally, the fact that this transition to democracy was achieved in a non-Western country relativizes the central arguments of the "Asian values" debate; Taiwan's transformation certainly offers a model for other political systems and particularly for emerging nations.

7. Outlook

Overall, this transformation process has attained success that should endure for the foreseeable future. Politically, Taiwan developed from an autocracy to a constitutional democracy. Meanwhile, its economy was transformed from a state-directed economy with market-economy elements to a largely social market-economy. Socially, it evolved from a controlled to an open society.

Therefore, this political, economic and social transformation can be described as an extraordinary success story, and it can indeed—contrary to the views of those who advocate a specific "Asian path"—serve as proof that a "Chinese" society is quite capable of building a democratic society with a functioning civil society.

Nevertheless, some problems remain. For example, although Taiwan's banking system emerged from the Asian crisis relatively unscathed, there is much to indicate that the danger still exists that many banks and credit institutions continue to carry inadequately secured loans. In the political arena, work is still needed to fine-tune institutional cooperation mechanisms governing the relationship between Parliament and the president. Time and again, the current unclear situation hobbles political decision-making in domestic conflicts. Among the most difficult problems to solve is Taiwan's indeterminate status in foreign affairs; no solution that could lead to a win-win situation is anywhere in sight. Taiwan's growing economic dependence on the mainland further exacerbates political tensions between the two. Meanwhile, its strong integration into the global economy makes it heavily dependent on the world economic situation and especially on economic developments in the United States.

However, the island also has opportunities. The soaring high-tech and biotechnology sectors are consistently fostered by the government and further aided by the population's very high level of education and the country's exemplary university system. In addition, Taiwan has managed to significantly increase the number of scientists returning from the United States.

Socially, Taiwan's civil society is taking firm root and actively participates in shaping the country's political life. On the whole, the political elite can be credited with an outstanding managerial achievement that is capable of assuring both economic reforms and an expansion of the state-regulated social-welfare system.