

BEST'S COUNTRY RISK REPORT

Taiwan CRT-2

August 22, 2018

Region: Eastern Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Taiwan, a CRT-2 region, has a low risk profile. Its economy is closely tied to mainland China's, as China is its primary destination for exports. Consequently, as China transitions to a more consumption-based economy, Taiwan should benefit from positive spillover effects resulting from increased demand. Political relations with China have deteriorated recently, but the economic integration is largely stable.
- Despite risks, the economy's growth is expected to accelerate over the medium term, given higher global demand for the country's sophisticated technology exports.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Eastern Asia

- Eastern Asia is home to some of the world's largest and most advanced economies. China (the second-largest economy in the world), Japan (third-largest), and South Korea (twelfth-largest) dominate much of Eastern Asia's economy as measured by gross domestic product (GDP) by the International Monetary Fund at year-end 2017.
- Tailwinds to the region include robust global growth and the resulting increase in demand for exports, growing domestic consumption, low interest rates, favorable labor market conditions, and government investment in infrastructure.
- Eastern Asia is particularly vulnerable to the rise in global trade protectionist policies and the resulting disruption in regional production networks. Additional risks for the region include an increase in geopolitical tensions, tighter global financial market conditions, potential capital outflows, exchange rate and financial market volatility, aging demographics and the resulting associated costs, government intervention in the private sector, and rising government debt levels.

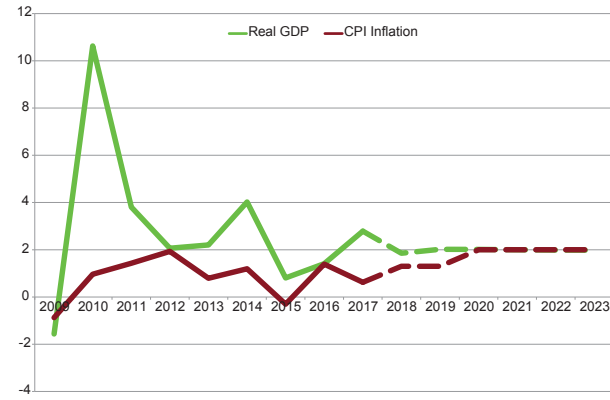
Vital Statistics 2017		
Nominal GDP	USD bn	579.30
Population	mil	23.6
GDP Per Capita	USD	24,577
Real GDP Growth	%	2.8
Inflation Rate	%	0.6
United Nations Estimates		
Literacy Rate	%	98.5
Urbanization	%	n.a.
Dependency Ratio	%	35.2
Life Expectancy	Years	80.2
Median Age	Years	40.7
Insurance Statistics		
Insurance Regulator	Insurance Division of the Financial Supervisory Commission	
Premiums Written (Life)	USD mil	98,602
Premiums Written (Non-Life)	USD mil	18,873
Premiums Growth (2016 - 2017)	%	8.4
Regional Comparison		
		Country Risk Tier
Taiwan		CRT-2
China		CRT-3
Hong Kong		CRT-2
Japan		CRT-2
Macau		CRT-2
South Korea		CRT-2

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

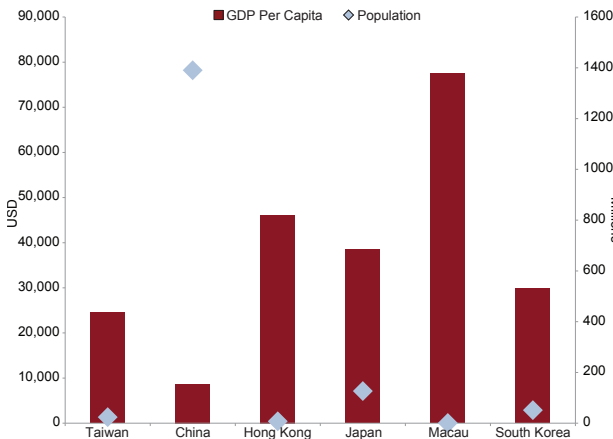
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- Taiwan's exports, especially industrial manufacturing exports, are the key driver of economic growth, supported by a healthy global economic outlook and is expected to further expand in 2018. A heavy reliance on trade leads to the economy's vulnerability to external fluctuations.
- Taiwan has a highly developed infrastructure, including advanced communications and transport systems. Its geography exposes Taiwan to natural disasters, but an excellent infrastructure partially mitigates the risk.
- The labor market is flexible, and the workforce is highly educated. However, the population is aging rapidly—the region has one of the world's lowest birth rates.
- Cross-strait investments from mainland China declined in 2015 and 2016, but trade between the two entities increased in 2017 to levels higher than under the previous administration.

Political Risk: Low

- The ruling Democratic Progressive Party (DPP) is pro-independence and controls both the presidency and the unicameral parliament.
- President Tsai Ing-wen has pledged to maintain the country's close economic ties with mainland China, with the cross-strait integration generally stable. However, the political relationship, which has deteriorated somewhat in recent years, may cause some political destabilization.
- The ageing population is constraining the current pension system. Tsai's decision to lower public sector pensions has hurt her popularity.
- The legal system is well-established, and the rule of law is strong. Contract enforcement in Taiwan ranks 10th in the world, according to the World Bank.
- Corruption and the cumbersome bureaucracy can obstruct efficient business operations, but the country is making progress diminishing corruption.
- The main external security risk is an increased authoritarian relationship with China.

Financial System Risk: Low

- The Insurance Bureau, a branch of the Financial Supervisory Commission, is the main insurance regulator.
- The KMP, the opposition party, and the DPP are both pro-business and seek to attract foreign investments, and the administration focuses on encouraging domestic consumption. An increase in corporate tax rates over the near term is thus unlikely.
- Taiwan's current-account runs a consistent surplus, and its foreign-exchange reserves and liquidity are extremely strong, serving as a buffer for global fluctuations.
- However, the banking sector needs strengthening and consolidation, and the current policy environment prevents crucial reforms from being implemented.