



Regional Report Asia and Oceania

**Balancing the Triangle: Democracy,
Market Economy and Governance**

by Aurel Croissant and Christoph Trinn

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Regional Report BTI 2026

Asia and Oceania

Balancing the Triangle: Democracy, Market Economy and Governance

by Aurel Croissant and Christoph Trinn *

Overview of the transformation processes in Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, North Korea, Pakistan, Papua New Guinea, Philippines, Singapore, Sri Lanka, South Korea, Taiwan, Thailand, Timor-Leste and Vietnam



This regional report analyzes the results of the Bertelsmann Stiftung's Transformation Index BTI 2026 in the re-view period from February 1, 2023, to January 31, 2025. Further information can be found at www.bti-project.org.

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Introduction

Asia and Oceania is the largest and most consequential of the BTI's seven regions, whether measured by population, territory or economic output. The 22 countries assessed in this report span three subregions: South Asia, Southeast Asia and Northeast Asia. Southeast Asia comprises the countries east of India and south of China, including the 10 member states of the Association of Southeast Asian Nations (ASEAN), as well as Timor-Leste, which is set to join the bloc in October 2025. The region further includes seven countries in South Asia, four in Northeast Asia and the Pacific island state of Papua New Guinea. These historically evolved subregions are closely intertwined – economically and politically, but also through shared historical, cultural, social and religious ties, and increasingly through digital connectivity. China and India in particular have long exerted considerable influence and continue to shape patterns of economic and political transformation across the wider region.

The region's vast scale is matched by the breadth of its political and economic trajectories, as well as the diversity of its governance models. Nowhere is this more apparent than in Northeast Asia. In few other parts of the world do consolidated democracies with functioning market economies exist in such immediate proximity to hard-line autocracies with tightly constrained or rudimentary market systems – a contrast starkly visible on the Korean Peninsula and across the Taiwan Strait. Developments in South and Southeast Asia are equally varied. Afghanistan and Pakistan once again registered significant setbacks in political and economic transformation. By contrast, Sri Lanka – and particularly Bangladesh – recorded improvements during the 2023–2024 reporting period. Bhutan and Nepal continue to make gradual political and economic gains, albeit from a low economic base. Across much of Southeast Asia, transformation has largely stalled. Dramatic deterioration has been avoided in most cases, but momentum is limited. Malaysia, which has been undergoing a democratic transition since 2018, further consolidated both its political and economic reforms. Yet this progress is overshadowed by human suffering in Myanmar, devastated by civil war and natural disasters, as well as by renewed territorial tensions – between Thailand and Cambodia, and between China and several Southeast Asian states in the South China Sea

For most countries in the region, democracy and the market economy remain under strain. While overt backsliding was limited during the BTI 2026 observation period, this reflects a slowdown in the erosion of democratic and governance standards rather than a genuine reversal. Meaningful progress, meanwhile, has been confined to only a handful of cases. At the same time, autocratic and anti-pluralist actors are projecting greater confidence on the international stage. This trend is evident not only in China, India and Singapore, but increasingly in North Korea – one of the geopolitical beneficiaries of Russia's war against Ukraine – and in countries such as Indonesia, Cambodia and Pakistan. Where Western donors once dominated governance concepts and reform agendas in the 1990s and 2000s, China's rise has marked a structural turning point. Governments in Asian transformation countries now have a broader range of international partners to choose from. This diversification carries ambivalent consequences. On the one hand, it can dilute Western efforts to promote democracy and sustainable development, which have often lacked consistency. On the other, it has enabled Asian governments to negotiate more equal partnerships with Western states – a dynamic particularly visible in autocratizing BRICS members such as Indonesia and India. Although not yet fully reflected in the current reporting period, the

foreign and trade policies of a second Trump administration in the Indo-Pacific merit close scrutiny. Early signals suggest such policies could nudge countries like India and Vietnam closer to China, unsettle longstanding allies such as South Korea and Taiwan, and tilt the Sino-American balance further in Beijing's favor.

More broadly, China's emergence as a provider of development finance, political backing, military cooperation and ideological reference points is reshaping the Indo-Pacific order. It challenges the Western normative dominance that defined governance standards from the 1980s through the 2000s. For decades, debates about good governance in Asia and Oceania were largely anchored in Western experiences and epistemologies. Institutional reforms across the region drew heavily on Western models, producing hybrid systems that blended local traditions with imported frameworks. That landscape has shifted markedly. Although no coherent "Asian governance model" has taken shape, the era of unchallenged liberal Western hegemony – in which democracy and liberalism were treated as universal and uncontested – has clearly eroded and will continue to do so (Cooley & Dukalskis 2025). At the same time, knowledge exchange within the broader Indo-Pacific has intensified, reinforcing a move away from one-directional transfers from West to East or North to South. Against a backdrop of mounting political strains in the Global North and changing dynamics in the Global South, democracy promotion has become more contested in donor countries and more difficult to implement in recipient states.

Political transformation

The BTI 2026 observation period saw no shifts in regime type across Asia and Oceania. The regional balance therefore remains unchanged: 12 autocracies and 10 democracies. Taiwan and South Korea continue to stand out as the only Asian democracies without major defects. Taiwan has shown notable resilience in the face of sustained external pressure. Yet rising social polarization, the growing appeal of populist actors and persistent interference from abroad indicate that democratic quality may come under increasing strain. South Korea, by contrast, entered a period of acute turbulence under now-impeached President Yoon Suk-yeol. Its democracy score declined by 0.55 points compared with the BTI 2024. Even the previous report had pointed to autocratizing tendencies in Yoon's leadership style. Yet his declaration of martial law late on Dec. 3, 2024 stunned both domestic and international observers. Yoon justified the move by citing alleged threats from North Korean "unscrupulous pro-Pyongyang anti-state forces" in parliament and accused the opposition of establishing a "parliamentary dictatorship" (Korea Joong Ang Daily 2024). The attempt to subvert democratic institutions collapsed within hours in the face of resistance from parliament and civil society. Still, the downgrade reflects more than the immediate shock of the attempted *auto golpe*: it also captures the prior erosion of democratic consensus among political elites and the deepening polarization of Korean politics.

Indonesia likewise saw a decline in democratic quality, driven largely by former President Joko Widodo, widely known as Jokowi. After completing two terms, he sought to remain in office despite constitutional term limits. Unable to secure a constitutional amendment permitting a third term, he instead promoted his sons and brother-in-law as political heirs. Central to this strategy was an alliance with his former rival, Prabowo Subianto. Jokowi backed Prabowo's presidential bid on the condition that his politically inexperienced son, Gibran Rakabuming Raka, be selected

as running mate. To facilitate this arrangement, a Constitutional Court ruling effectively circumvented the minimum age requirement for candidacy. The decision was widely criticized, not least because the court's chief justice at the time was Jokowi's brother-in-law, who was subsequently removed for ethical violations. The February 2024 presidential election was widely considered the least fair since Indonesia's democratization in 1998. Prabowo and Gibran benefited from extensive backing by elements of the state apparatus, local administrations, the media, as well as the military and police. Large-scale public spending targeted poorer voters in an effort to consolidate support. Through these maneuvers, Jokowi pushed Indonesia's democracy to the brink of autocratization. The new president, Prabowo Subianto – a former general and son-in-law of longtime ruler Suharto, long accused of involvement in serious human rights abuses during the authoritarian era – has expressed open skepticism toward liberal democratic norms. Under his leadership, the military's renewed prominence in politics has become increasingly visible, a trend that continued beyond the close of the 2025 reporting period.

The region's remaining democracies exhibit varying degrees of defectiveness. India and the Philippines stand out in this regard, even if the pace of democratic erosion has slowed in both cases. In India, the 2024 parliamentary elections delivered unexpected losses for the ruling Bharatiya Janata Party (BJP), compelling it to form a coalition government. Nonetheless, anti-pluralist veto players continue to shape key institutions and political processes in both countries. Civil liberties and political freedoms remain under pressure, and the judiciary is vulnerable to political interference. In the Philippines, the presidency of Ferdinand Marcos Jr. – son of former dictator Ferdinand Marcos Sr. – has been defined less by institutional reform than by persistent power struggles among rival elite factions and entrenched political dynasties.

Among the region's democracies assessed by the BTI 2026, only Malaysia (+0.60) and Sri Lanka (+0.35) recorded notable improvements. In Malaysia, following the 2018 democratic transition and the disruptions of the COVID-19 pandemic, the unity government led by Prime Minister Anwar Ibrahim maintained relative stability in 2023 and 2024 by achieving cross-party compromise. It strengthened the capacity of public institutions, enhanced the authority of the auditor general and advanced reforms in party financing. Important deficits remain, however. Freedom of expression continues to face constraints, and proposed amendments to media legislation have drawn criticism for expanding state oversight and coercive powers. The judiciary also remains susceptible to politicized prosecution. The BTI 2026 also records a degree of democratic recovery for Sri Lanka after the crisis years under the Rajapaksa brothers, who had dominated politics since the mid-2000s. Under President Ranil Wickremesinghe, who took office in 2022 amid a severe debt and economic crisis, macroeconomic conditions stabilized. Yet his tenure was also marked by measures that weakened civil liberties, the rule of law and broader democratic standards. In a surprising development, Wickremesinghe was voted out of office in September 2024. His successor, Anura Kumara Dissanayake of the leftist National People's Power alliance, secured a broad mandate cutting across ethnic and social divides. Given the scope of the political and economic reforms he has outlined, such cross-group backing will be indispensable.

Tab. 1: State of political transformation

consolidating democracies Score 10 to 8	defective democracies Score < 8 to 6	highly defective democracies Score < 6	moderate autocracies Score ≥ 4	hard-line autocracies Score < 4
Taiwan	Timor-Leste	Indonesia ▼	Singapore	Thailand
South Korea	Bhutan	Philippines	Papua New Guinea	Vietnam
	Sri Lanka		Bangladesh	Pakistan
	Nepal			China
	India			Laos
	Malaysia ▲			Cambodia
				North Korea
				Afghanistan
				Myanmar ●

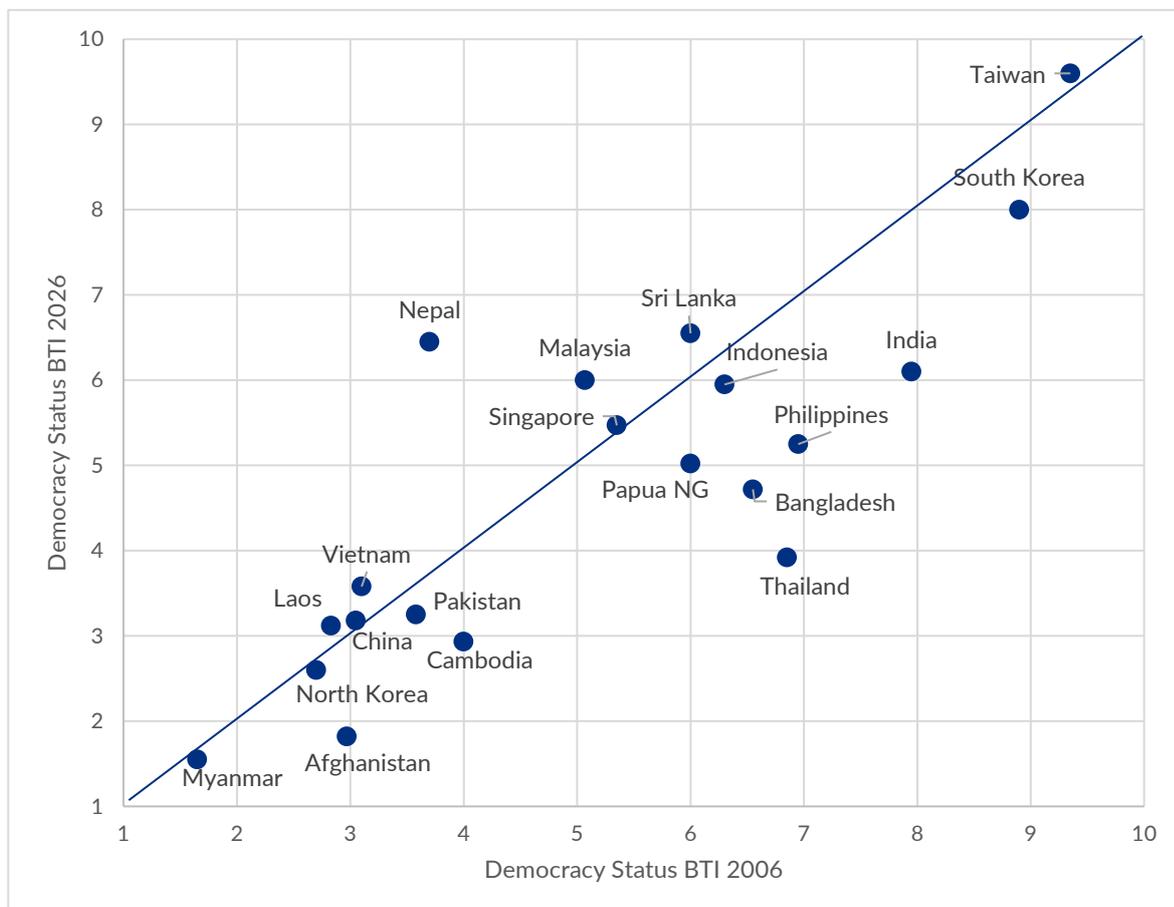
The table follows the BTI 2026 index scores. Countries are ranked according to their system categorization and respective score in political transformation status. Arrows mark a change of category compared with the BTI 2024, dots mark failing states.

The 12 nondemocratic regimes in Asia and Oceania fall into two broad categories: moderate and hard-line autocracies. This distinction is derived from overall political transformation scores, which also reflect differing degrees of effective stateness. Within these categories, a further analytical divide separates consolidated autocracies from regimes undergoing authoritarian hardening. Consolidated autocracies exhibit a level of elite cohesion and societal control that renders a regime effectively “the only game in town” (Lott & Croissant, 2025). They are typically characterized by low levels of protest, limited overt elite conflict and the absence of regime-threatening crises. While these systems generally maintain a firm monopoly over the use of force, their durability does not rest on repression alone. Rather, stability emerges from a calibrated combination of coercion, co-optation and legitimation (Gerschewski 2023). BTI data underscore the stylistic diversity among Asia’s consolidated autocracies. Some govern in comparatively restrained or “soft” ways toward elites and citizens, as in Singapore. Others rely on extensive repression and near-total societal control, as in North Korea. Overall, this group – China, Laos, North Korea, Singapore and Vietnam – is marked by the absence of any meaningful movement toward democratization in recent years (see Fig. 1). The growing concentration and personalization of power in China under Xi Jinping, leadership reshuffles within Laos’ party-state apparatus, the temporary suspension of established internal power-sharing norms in Vietnam following the death of General Secretary Nguyen Phu Trong, and the orderly leadership transition in Singapore, where Lawrence Wong succeeded Lee Hsien Loong as prime minister in May 2024, all signal the continued consolidation of authoritarian rule.

Autocracies undergoing authoritarian hardening follow a different trajectory. In these systems, regimes respond to perceived vulnerabilities by tightening repression and narrowing previously available channels of political and civic participation. This often involves expanding coercive capacities and strengthening control over their monopoly on the use of force. Yet these orders remain more visibly contested and structurally fragile, as manifest in sporadic mass protests, elite rivalries and recurrent political crises. Hardening is frequently a defensive response to challenges confronting an inherently unstable equilibrium. During the BTI 2026 reporting period, authoritarian hardening intensified in several vulnerable regimes, including Pakistan (-0.40), Myanmar (-0.18), Cambodia (-0.10) and Afghanistan (-0.05). At times, however, intensified repression can prove counterproductive. Escalating violence in response to dissent may provoke a

backlash that ultimately upends the regime itself. Bangladesh illustrates this dynamic. The system led by Prime Minister Sheikh Hasina, in power since 2009 and identified as potentially at risk in the BTI 2024, was shaken by a mass uprising between mid-July and early August 2024. Student protests against discriminatory hiring practices in public-sector employment were met with torture and violent repression. Various reports estimate that roughly 1,400 people were killed by security forces, intelligence agencies and supporters of the ruling party. Despite these measures, the regime failed to restore control. A transitional government headed by Nobel laureate Muhammad Yunus subsequently assumed office. Since then, a series of constitutional, political and economic reform initiatives has been launched. This shift is reflected in Bangladesh's improved democracy score, which rose from 4.03 in the BTI 2024 to 4.72 in the BTI 2026.

Fig. 1: Political transformation in a 20-year comparison



Note: Excluding Bhutan and Timor-Leste, which were not examined in the 2006 BTI.

A closer examination of the democracy indicators most affected by recent gains or setbacks – set against longer-term trajectories – yields particularly valuable insights. The BTI now offers a sufficiently deep historical time series to permit such comparisons, a major strength of its longitudinal data collection. Figure 1 illustrates a pronounced decline in the level of democratic transformation in seven of the nine countries classified as democracies in BTI 2006. Over the past 20 years, only Sri Lanka and Taiwan have recorded a net improvement in democratic quality. Additional system changes have occurred in Malaysia, classified as a democracy since 2020, and in Nepal, categorized as a democracy from 2010 to 2012 and again since 2016. Bhutan, assessed since 2008 and rated a defective democracy since 2014, as well as Timor-Leste, included since 2020 and consistently classified as a democracy, also exhibit positive trends. Given their small

size and peripheral geopolitical position, however, these cases offer limited scope for broader regional generalization. By contrast, most regimes categorized as autocracies in 2006 display relatively little long-term variation. The principal exceptions are the hardened autocracies of Afghanistan, Cambodia and Pakistan.

Fig. 2: Indicators and criteria of political participation and the rule of law since 2006

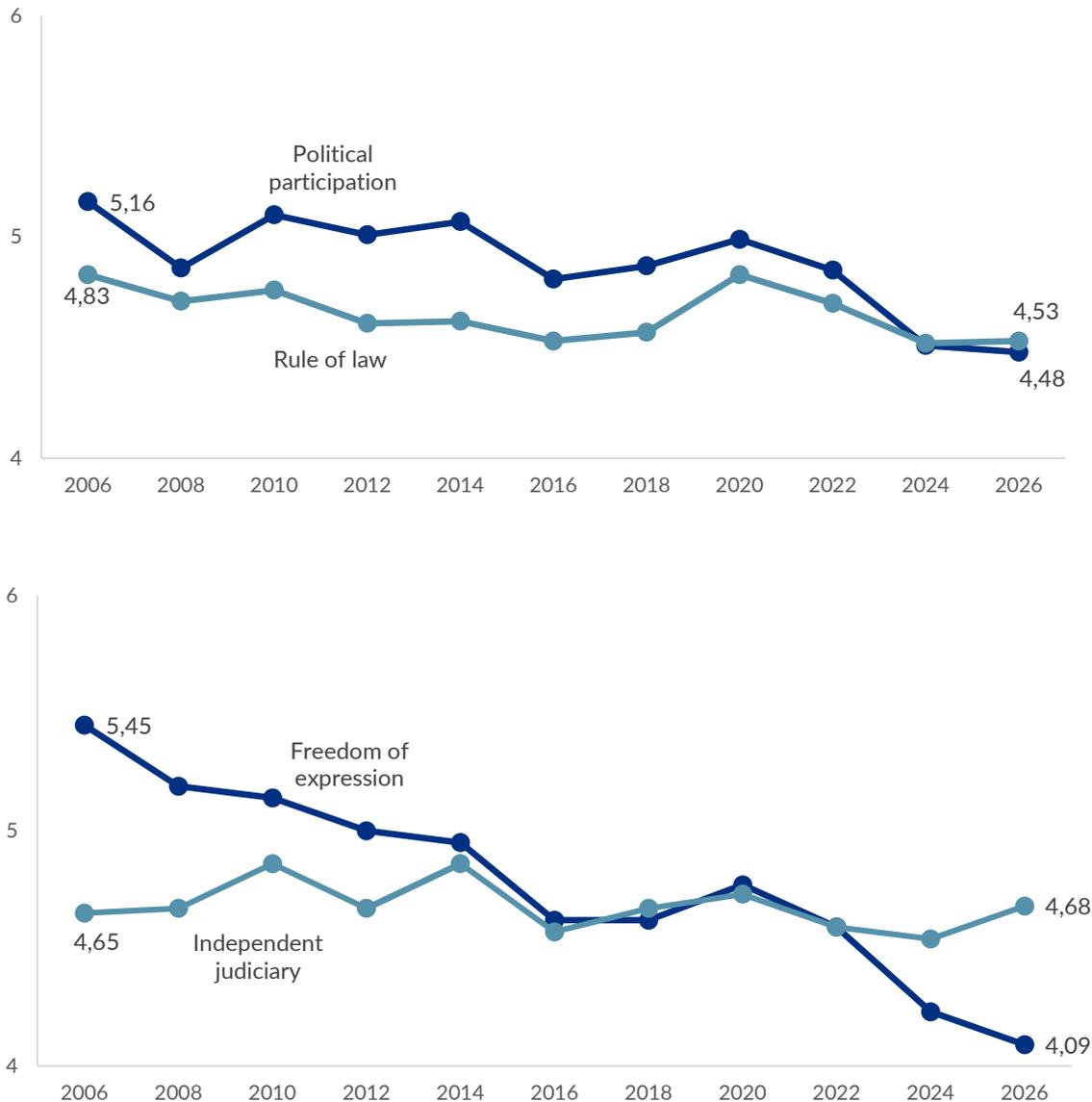


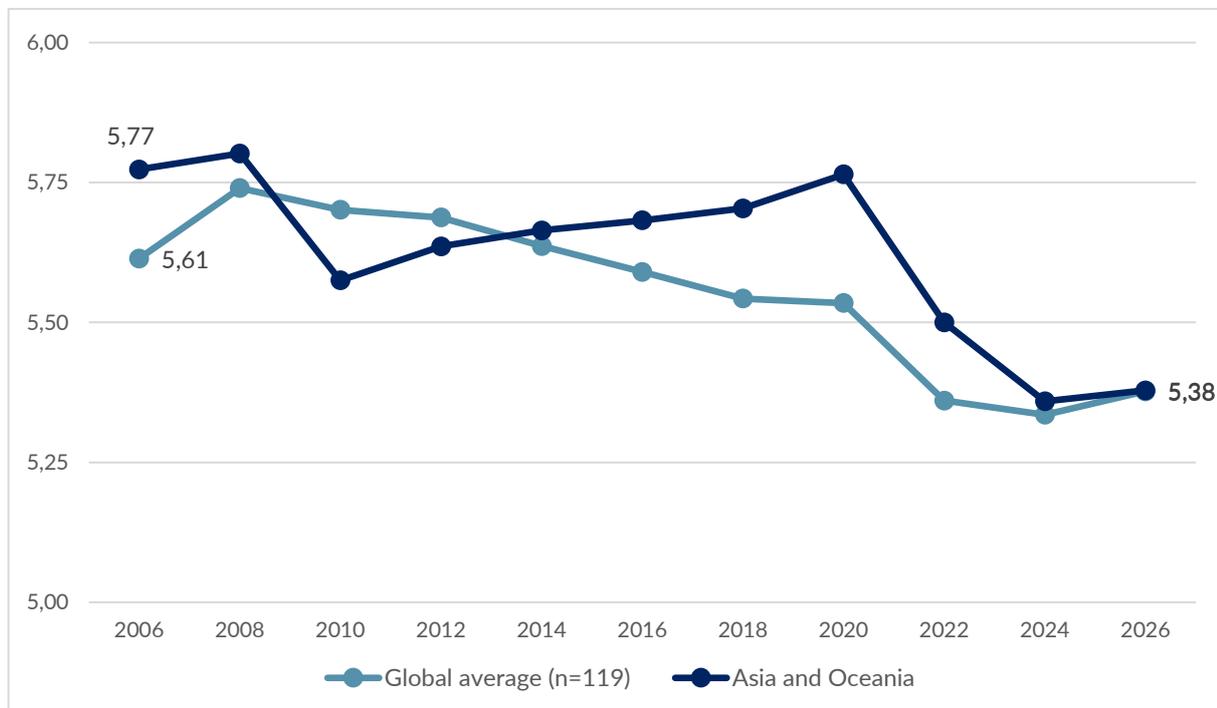
Figure 2 identifies the democracy indicators that experienced the most significant positive or negative shifts in the BTI 2026 and places them in a longer-term perspective. As in previous reporting periods, freedom of expression (indicator 2.4) came under particular pressure, declining by 0.14 points. Judicial independence (indicator 3.2), by contrast, registered a modest improvement of 0.13 points. While these changes appear moderate in isolation, they form part of a broader dynamic affecting the two core pillars of a minimalist conception of democracy: political participation and the rule of law. The former encompasses freedoms of expression, association and media pluralism; the latter includes judicial independence and related institutional safeguards). The data suggest that, in Asia and Oceania at least, the thesis of a stable “decoupling”

between the electoral and liberal dimensions of democracy does not withstand long-term empirical scrutiny. The argument that electoral competition and basic participatory mechanisms remain comparatively intact while liberal guarantees erode more profoundly (Ding & Slater 2021) finds only limited support when assessed over a 20-year horizon. Instead, the region exhibits a pattern better described as sequential democratic erosion. Starting from often modest institutional baselines, liberal rule-of-law safeguards tend to weaken first. Over time, however, pressures extend to the electoral arena itself.

Economic transformation

During the BTI 2026 reporting period, the region of Asia and Oceania found itself at a juncture between cyclical recovery and deeper structural adjustment. The immediate shocks of the COVID-19 pandemic and the global energy and food price spikes of 2022 have largely subsided (see Figure 3). Their longer-term consequences, however – elevated inflation, increased fiscal vulnerability driven by rising public debt, and the reorganization of global supply chains – continue to shape economic trajectories across the region. Rather than converging toward a shared development model, countries are diverging more visibly in their growth paths. These differences cannot be explained solely by geography or resource endowments. They reflect, to a considerable extent, variation in institutional quality and the effectiveness of political steering capability.

Fig. 3: Economic transformation over time (BTI 2006 - 2026)



Note: Excluding Bhutan and Timor-Leste, which were not examined in the 2006 BTI.

Asia and Oceania displays one of the world's steepest socioeconomic gradients (see Table 2). At the top end, the region's most affluent economies – Singapore, Taiwan and South Korea – continue to lead across key human development indicators. Yet even these high performers face

mounting structural pressures: demographic aging, shrinking labor forces and rising living costs that increasingly burden middle-class households. In many cases, wage growth has lagged behind productivity gains, and housing affordability has emerged as a flashpoint for public discontent. The top performing emergent economies such as China, Malaysia and Thailand present a more ambivalent picture. Key development indicators have remained broadly stable, but disparities between urban and rural areas have widened. At the same time, education systems are under growing pressure to equip workforces with skills for a digitally driven and environmentally sustainable economy. Lower-middle-income economies – including India, Vietnam, the Philippines and Indonesia – have recorded some of the highest GDP growth rates worldwide. However, this macroeconomic dynamism has translated only partially into inclusive social progress. Persistent structural challenges – including large informal sectors, limited rural healthcare access and a mismatch between education and labor market needs – continued to hamper inclusive development. At the lower end of the spectrum are low-income and fragile states such as Afghanistan, Myanmar, Laos, Timor-Leste and Papua New Guinea. These countries face entrenched infrastructure deficits, chronically underfunded education and health systems, and high poverty rates. In Afghanistan and Myanmar, political instability and violent conflict have either stalled or reversed earlier gains in literacy, maternal health and access to clean drinking water.

Tab. 2: State of economic transformation

highly advanced	advanced	limited	very limited	rudimentary
Score 10 to 8	Score < 8 to 7	Score < 7 to 5	Score < 5 to 3	Score < 3
Taiwan	Malaysia	China	Cambodia	Afghanistan
Singapore		Thailand	Bangladesh	Myanmar
South Korea		Indonesia	Nepal	North Korea
		Vietnam	Papua New Guinea	
		India	Timor-Leste	
		Philippines	Laos	
		Bhutan	Pakistan	
		Sri Lanka		

The table follows the BTI 2026 index scores. Countries are ranked according to their respective score in economic transformation status. Arrows mark a change of category compared with the BTI 2024.

Market structures across Asia and Oceania are equally diverse, ranging from highly competitive, rules-based systems to heavily state-dominated economies characterized by significant distortions. Malaysia, the Philippines, Singapore, South Korea, Taiwan and Vietnam operate comparatively open and diversified markets. They actively attract foreign direct investment and remain deeply embedded in global value chains. In recent years, these countries have strengthened competition policy, lowered barriers to market entry and enhanced regulatory transparency. Hybrid systems such as China, India, Indonesia and Thailand combine vibrant private sectors with strategic state intervention. In China, state control has tightened in key sectors including semiconductors, finance and real estate, even as export-oriented manufacturing continues to receive targeted support. India, by contrast, has pursued selective liberalization – expanding investment opportunities in renewable energy and industrial production while maintaining protectionist measures in agriculture and parts of manufacturing. At the opposite end stand state-dominated economies such as Afghanistan, Laos, Myanmar and North Korea, where competitive

private enterprise operates only within narrow constraints. In these contexts, resource allocation is shaped less by market competition than by political loyalty, military patronage or direct control by ruling elites. The consequences are predictable: low productivity, chronic underinvestment and heavy reliance on external assistance or informal – often illicit – economic networks.

Macroeconomic stability strengthened across much of the region during the BTI 2026 reporting period. India, Malaysia, Singapore, South Korea and Taiwan succeeded in bringing inflation back within target ranges, aided by cautious monetary policy and easing energy prices. Vietnam and the Philippines also contained price pressures, notably without resorting to steep interest rate hikes. Nonetheless, vulnerabilities persist. Pakistan, Sri Lanka and Laos required stabilization programs from the International Monetary Fund to avert balance-of-payments crises. China preserved overall monetary stability but faces a structurally distinct risk: mounting debt at the local-government level, closely linked to land sales and infrastructure-driven large-scale investments. So far, targeted interventions by the central government have contained systemic fallout. In fragile and conflict-affected states, credible monetary governance is largely absent. Afghanistan's central bank remains effectively cut off from the international financial system, while Myanmar's monetary authorities rely heavily on administrative controls that further distort market incentives. Commodity-exporting countries such as Timor-Leste and Papua New Guinea experienced pronounced revenue volatility amid fluctuating global commodity prices and remain highly exposed to external shocks.

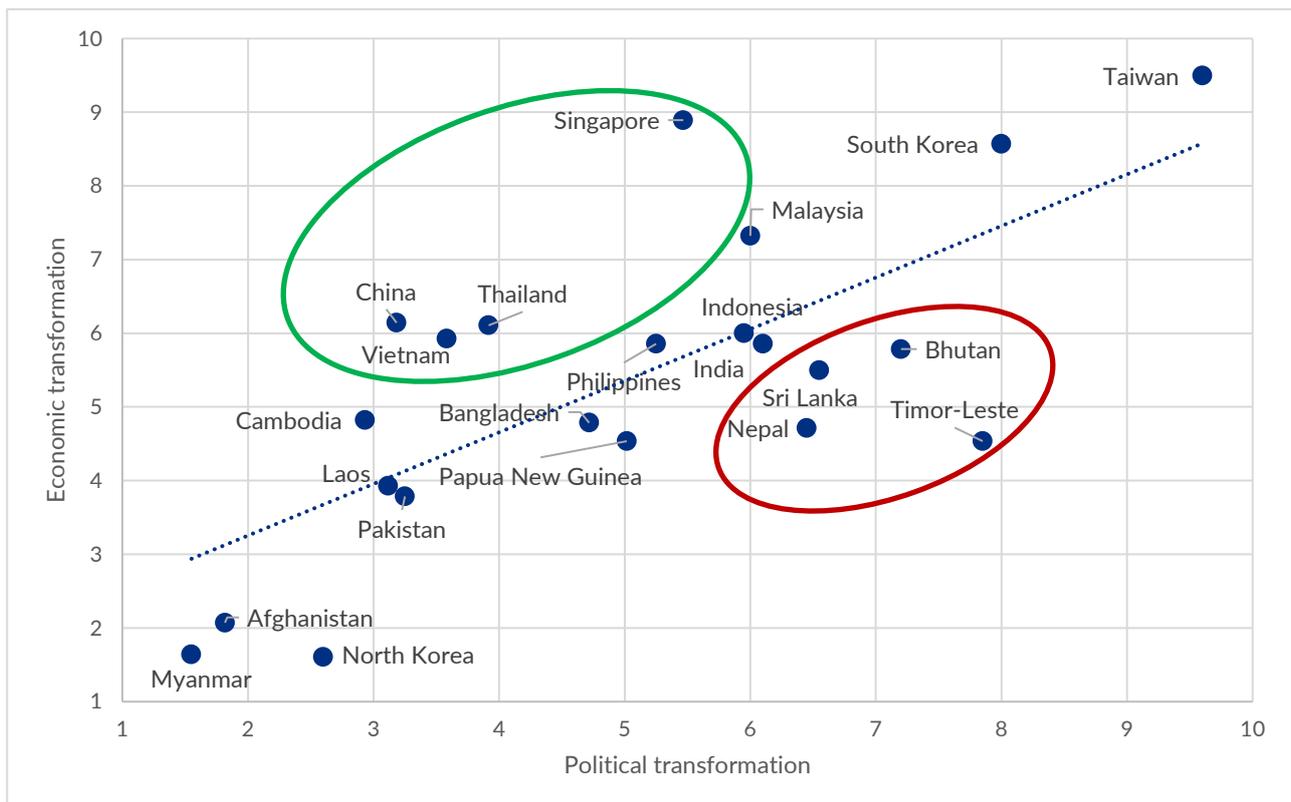
Across the region, the protection of property rights broadly tracks overall governance quality. In open, rules-based economies such as Singapore, Taiwan, South Korea and Malaysia, independent judiciaries and predictable legal frameworks provide effective safeguards for ownership. This degree of institutional certainty underpins investment and supports innovation. In economically dynamic yet authoritarian systems such as China and Vietnam, property rights are formally codified but ultimately subordinate to political priorities. For foreign investors, this creates regulatory uncertainty – particularly in sectors deemed strategic or politically sensitive. In fragile states such as Afghanistan and Myanmar, property rights are frequently unenforceable. Land expropriation, arbitrary seizure and conflict-driven displacement are widespread. Even in several democracies, land tenure for indigenous and minority communities remains contested. Disputes over large-scale development projects in India, the Philippines and Indonesia illustrate the persistent tension between economic expansion and the rights of local populations.

Selective expansions to social welfare systems have been undertaken in response to rising living costs and lingering pandemic-related vulnerabilities. India has improved targeting and reduced leakage through digital direct-transfer mechanisms. Singapore and Sri Lanka broadened assistance to vulnerable households, while Bhutan preserved universal access to health care and education despite fiscal constraints. In middle-income authoritarian systems such as Vietnam and China, pension and health insurance coverage has widened but remains concentrated among formal-sector and urban workers. Rural populations continue to face gaps in both coverage and benefit levels. In low-income economies, social protection remains heavily reliant on external development assistance and is therefore vulnerable to fluctuations in donor funding. Limited administrative capacity further constrains the effectiveness of safety nets, as evident in Laos and Timor-Leste.

During the BTI 2026 reporting period, economic growth across Asia and Oceania unfolded along clearly differentiated tiers. At the top stood India (around 8% GDP growth), Vietnam (7.09%), Bangladesh (5.82%) and the Philippines (5.60%) – among the most dynamic economies worldwide. A second cluster, comprising Indonesia, Malaysia, Singapore, South Korea, Taiwan and Thailand, recorded more moderate expansion between 1% and 5%. In some cases, slower growth reflected economic maturity and already high income levels. In others, it stemmed from subdued external demand and the deceleration of global trade. At the lower end of the spectrum, Afghanistan, Laos and Myanmar experienced stagnation or outright contraction. In these contexts, political instability, international sanctions and heavy debt burdens acted as persistent drags on economic performance.

Climate change has emerged as an increasingly visible macroeconomic constraint. Extreme weather events – floods in Bangladesh, typhoons in the Philippines and prolonged heat waves in China and India – disrupted agricultural output, strained energy systems and damaged infrastructure. Hydropower-dependent economies such as Bhutan and Laos faced electricity shortages during drought periods. China expanded renewable energy capacity at record speed, even as coal remains central to its energy mix. Many low-income states, however, lack the fiscal space and technological capacity required for effective climate adaptation.

Fig. 4: Political and economic transformation in the BTI 2026 compared



Taken together, the region's economic transformation reflects a combination of resilience and structural vulnerability. Macroeconomic indicators improved in numerous countries: inflation subsided, debt dynamics stabilized and trade flows adjusted to shifting geopolitical alignments. Yet persistent governance deficits, entrenched social inequality and high exposure to climate risks remain structural fault lines likely to shape future trajectories.

The correlation between economic and political transformation in Asia and Oceania remains strong ($r = 0.72$), underscoring their close interdependence. Figure 4 visualizes this relationship. Closed autocracies such as Afghanistan, Myanmar and North Korea continued to register severe economic failure, while democracies such as South Korea and Taiwan remained economically successful liberal democracies. In many countries – including Bangladesh, Laos, Pakistan, Indonesia and the Philippines – levels of economic transformation broadly correspond to the prevailing degree of political transformation. Two groups diverge strikingly from this overall pattern. The first comprises authoritarian regimes with relatively advanced levels of economic transformation, notably China, Singapore, Thailand and Vietnam. The second includes Bhutan, Nepal, Sri Lanka and Timor-Leste, which have made democratic gains yet continue to exhibit comparatively modest levels of economic development. These four democracies share several structural constraints: small domestic markets; landlocked or island geography; limited infrastructure; and, in some cases, legacies of internal armed conflict, as in Nepal and Sri Lanka. They also face either limited natural resource endowments – Bhutan, Nepal and Sri Lanka – or heavy dependence on a single commodity, as in Timor-Leste. Against this backdrop, their achievements in advancing democracy appears particularly noteworthy.

Governance

The limited momentum in both democratic and market-economic transformation is mirrored in the regional average of the Governance Index across all 22 countries. At the height of the COVID-19 pandemic (BTI 2022), the regional score stood at 4.84 points. It declined to 4.65 in the BTI 2024 and has since remained virtually unchanged at 4.64 in the BTI 2026.

Tab. 3: Quality of governance

very good Score 10 to 7	good Score < 7 to 5.6	moderate Score < 5.6 to 4.3	weak Score < 4.3 to 3	failed Score < 3
Taiwan	Singapore	Malaysia	Thailand	Afghanistan ▼
	Bhutan	Indonesia	Pakistan	Myanmar
	South Korea	India	Cambodia	North Korea
	Timor-Leste	Papua New Guinea		
		Sri Lanka		
		China		
		Bangladesh ▲		
		Nepal		
		Vietnam		
		Laos ▲		
		Philippines		

The table follows the BTI 2026 index scores. Countries are ranked according to their system categorization and respective score in political transformation status. Arrows mark a change of category compared with the BTI 2024, dots mark failing states.

Taiwan continues to exhibit “very good” governance. In the overall BTI 2026 ranking, the island ranks first worldwide – despite a decline in its Governance Index from 7.70 in the BTI 2024 to 7.49 in the BTI 2026. This modest drop is largely attributable to intensifying polarization between political camps, driven by the closely linked issues of national identity and cross-strait relations with mainland China. Four countries achieve an overall rating of “good” governance performance (see Table 3). Among them, Singapore stands out as a distinctive case of effective

governance under authoritarian rule. The People's Action Party has governed continuously since independence in 1959, and the political system it has shaped places significant limits on political competition, public criticism and opposition activity. Even so, the city-state ranks second regionally and eighth globally among all BTI countries. Singapore leads the BTI in the efficient use of assets and ranks second in political steering capability. Its main weaknesses lie in consensus-building – particularly with regard to public consultation – and in the influence of anti-democratic or semi-loyal elites. Notably, Bhutan and Timor-Leste, the two smallest states in the region, also rank among the top five in the regional governance rankings.

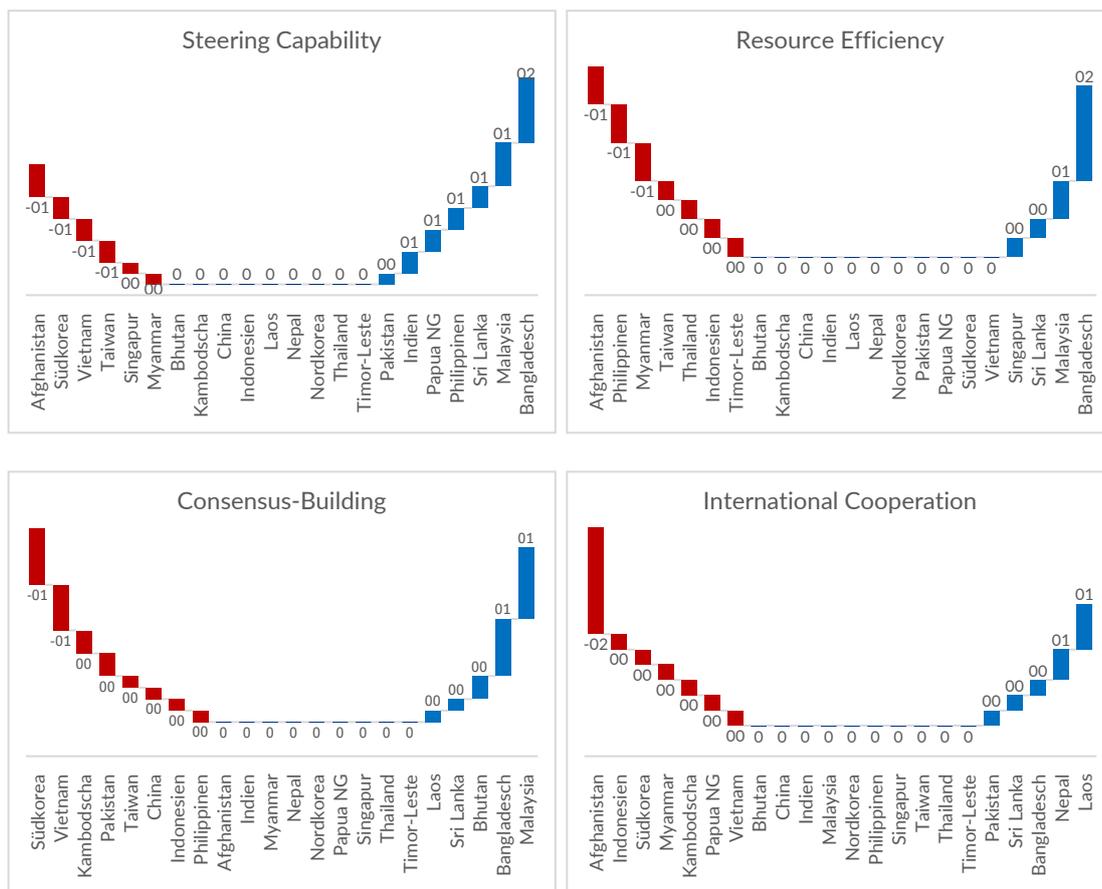
South Korea continues to number among the region's top performers in terms of governance, though its Governance Index score declined from 6.79 in the BTI 2024 to 6.44 in the BTI 2026. The confrontational and at times erratic leadership style of President Yoon Suk-yeol contributed significantly to this deterioration. Concerns expressed in the BTI 2024 regional report – that the administration elected in 2022 might revert to securitized governing practices and instrumentalize the state apparatus against the liberal opposition under the pretext of countering pro-North Korean forces – have unfortunately largely been borne out. Yet responsibility does not rest with the executive alone. Yoon, a political outsider without prior elected experience, bears clear accountability for escalating institutional conflict. At the same time, the opposition under Democratic Party leader (and Yoon's successor) Lee Jae-myung displayed limited willingness to pursue compromise-oriented governance. From the outset, the executive sought to circumvent the opposition-controlled parliament, while the opposition responded by blocking nearly every government initiative. The result has been entrenched gridlock and a deepening polarization in both politics and society. The crisis triggered by Yoon's declaration of martial law on Dec. 3, 2024 and his subsequent impeachment can be interpreted in two contrasting ways. On one hand, it serves as a powerful illustration of democratic resilience: opposition parties, dissenters within the ruling camp, civil society actors and ultimately the judiciary acted swiftly to block the attempted self-coup and hold the democratically elected president accountable. On the other hand, this marks the second instance in less than a decade that an elected administration openly challenged core democratic principles, procedures and norms without the system being able to prevent such overreach at the outset. Reactive resilience thus appears robust. Preventive resilience, by contrast, seems considerably weaker. It may only be a matter of time before this imbalance begins to erode the democratic system's capacity to contain future authoritarian backsliding (Croissant 2024).

In 11 countries – six democracies and five autocracies – overall governance quality is rated as moderate. For Laos and especially Bangladesh, this marks an improvement compared with the BTI 2024. Within this group, several countries recorded notable gains, most prominently Malaysia (+0.66) and Sri Lanka (+0.31). Others moved in the opposite direction, including Indonesia and Taiwan (both -0.21) and Vietnam (-0.45).

Governance performance is weak in three countries and classified as failed in another three. For the first time in 20 years, Afghanistan falls into the latter category. Since returning to power in August 2022, the Taliban have shown no willingness to pursue meaningful political or social reform. Although the security situation has stabilized, the regime continues to rely on military structures and authoritarian decrees rather than inclusive dialogue or rule-of-law procedures. Social groups exert no influence over decision-making and government policies frequently disregard public demands. Signs of weak domestic legitimacy are mounting. The Taliban's lack of legitimacy on the international stage remains evident, as no state has recognized them as Afghanistan's lawful government.

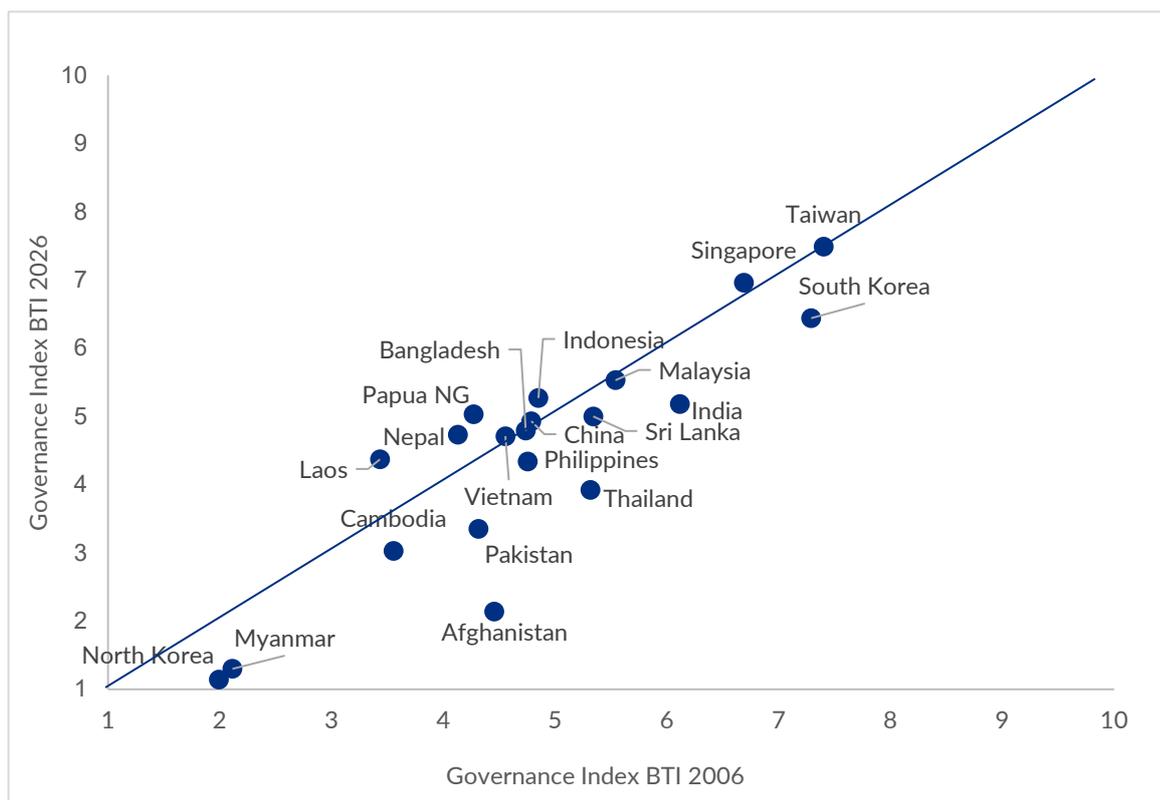
Laos recorded only a modest improvement of +0.29 points, driven mainly by gains in international cooperation. Bangladesh, by contrast, achieved the fourth-largest increase in governance quality among all BTI 2026 countries, rising by +1.14 points. Improvements are evident across several governance indicators, particularly in policy learning (from 2 to 5), prioritization, efficient use of assets and anti-corruption policy (each +2 points), as well as and public consultation (from 3 to 6 points). These gains are real but should not prompt premature optimism. The fall of the Awami League government has created a rare window of opportunity. Newly established reform commissions have proposed sweeping changes to the political system, economy and public administration, which could serve as a foundation for broad-based dialogue across party lines. As of August 2025, however, parties have yet to agree on a date for parliamentary elections to replace the transitional government. Failure to resolve these disputes could lead to renewed paralysis or, in the worst case, military intervention. Reintegrating leaders and supporters of the former regime will also be essential. At the same time, the government faces urgent challenges: rising crime, persistent inflation, declining foreign exchange reserves, monetary instability and widening fiscal deficits. Restoring public trust will be critical. These pressures will weigh heavily on both the transitional authorities and any future elected government.

Fig. 5: Changes in governance criteria scores in Asia and Oceania (BTI 2024 – BTI 2026)



Across the region, consensus-building and resource efficiency remain the weakest governance criteria. International cooperation, by contrast, is comparatively strong. Steering capability improved slightly, increasing by 0.12 points on the regional average. Yet as Figure 5 shows, in most countries – aside from the cases noted above – individual scores for governance criteria changed only marginally, if at all.

Fig. 6: Governance performance in comparative perspective over time

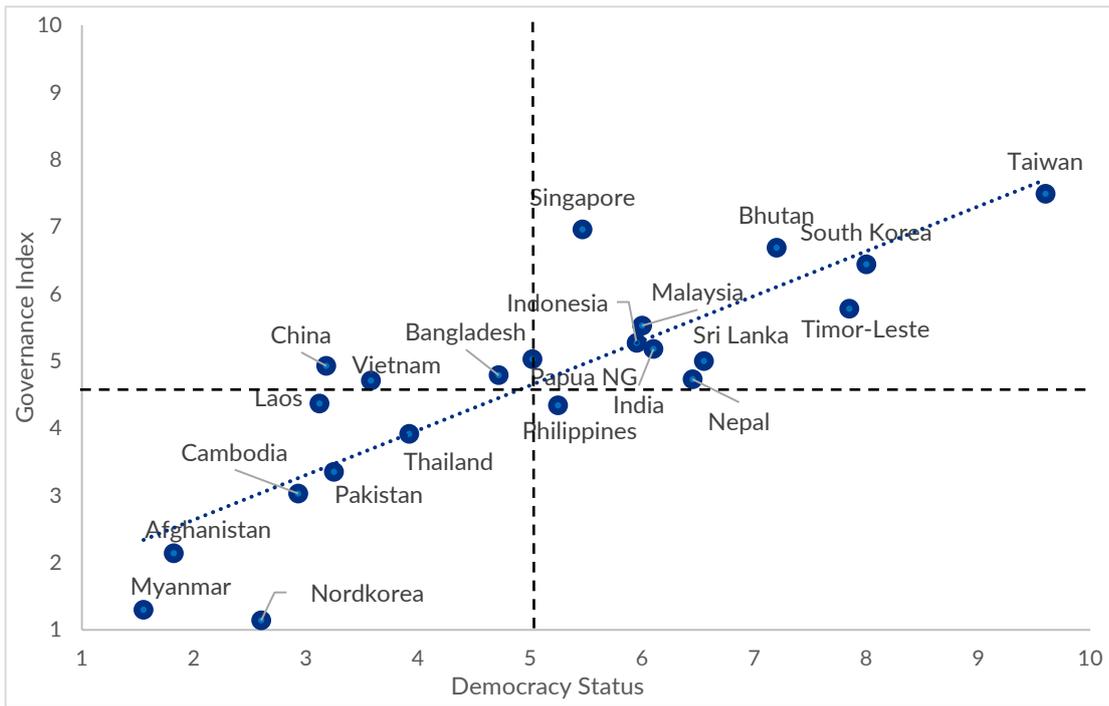


Note: Excluding Bhutan and Timor-Leste, which were not examined in the 2006 BTI.

A longer-term perspective reinforces these findings. Of the 20 countries assessed since the BTI 2006, 11 show a decline in governance performance over the past two decades. The erosion has been most pronounced in Afghanistan (-2.32), Thailand (-1.36), Pakistan (-0.97), North Korea (-0.84), India (-0.83), South Korea (-0.81) and Myanmar (-0.74) – in other words, in backsliding democracies and hardened autocracies. This pattern points to a clear connection between governance quality and democratic standards, not only in terms of levels but also trajectories. Only three countries improved their Governance Index score by more than 5% – equivalent to 0.5 points – over this period: Nepal (+0.57), Papua New Guinea (+0.85) and Laos (+0.89). All three are transformation states that started from and continue to occupy relatively low levels of governance quality and modest levels of political and economic transformation.

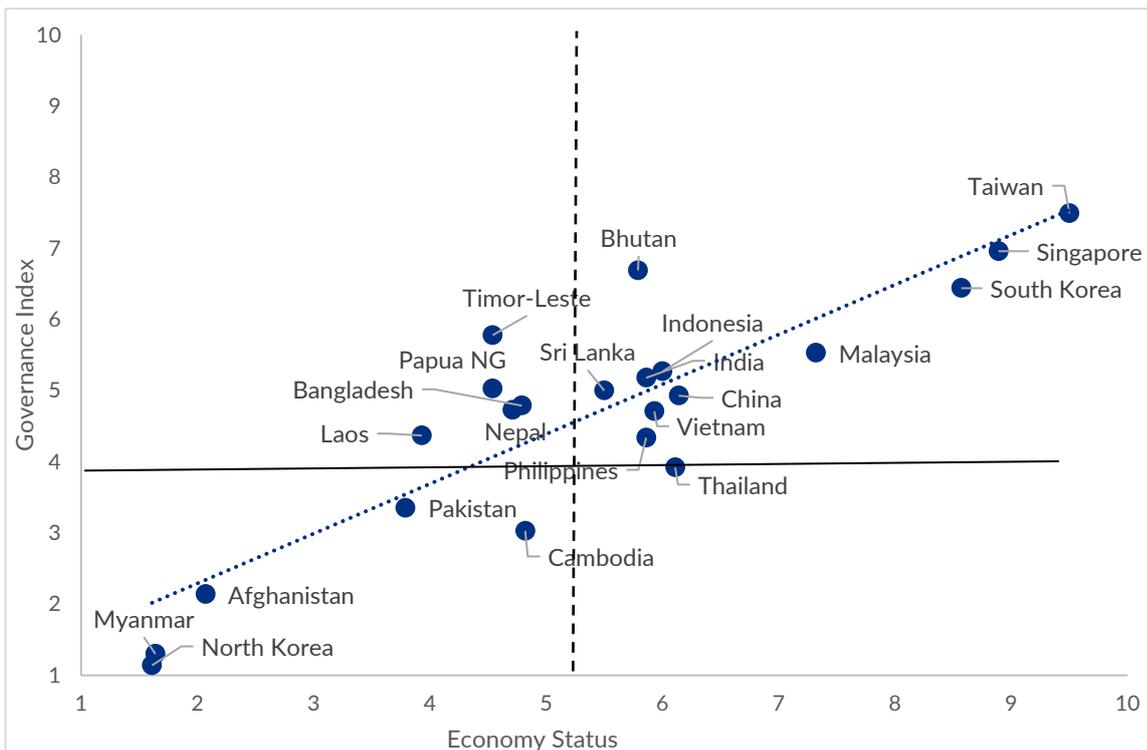
These trends highlight the close relationship between governance and transformation outcomes across both BTI dimensions. In the BTI 2026, the regional average democracy score stands at 5.01 points, while the unweighted Governance Index average is slightly higher at 5.24 points. As Figure 7 illustrates, countries whose political decision-makers lack democratic legitimacy – and whose steering capability is not subject to meaningful democratic incentives or rule-of-law constraints – tend to lag behind states with more developed democratic institutions. Singapore remains the only autocracy with clearly above-average governance quality. Four additional authoritarian regimes – China, Vietnam, Bangladesh and Papua New Guinea – perform slightly above the regional average.

Fig. 7: Governance and political transformation, BTI 2026



A comparison with levels of market-economic transformation yields a similar but less clear-cut pattern. Singapore again stands out as the only nondemocratic system combining high governance quality with a highly advanced level of economic transformation. Authoritarian systems such as China and Vietnam also fall within the group of countries displaying slightly above-average governance and economic performance.

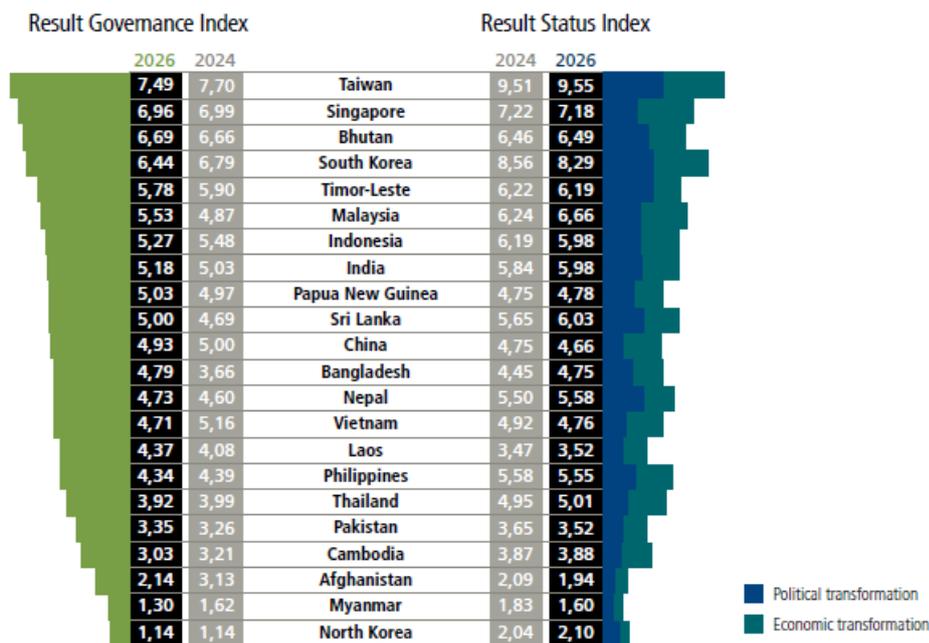
Fig. 8: Governance and economic transformation, BTI 2026



Outlook

BTI 2026 data underscores the region's notable resilience in the face of multiple crises – the pandemic, energy and food price shocks and mounting geopolitical tensions. At the same time, structural vulnerabilities persist and will continue to shape the region's transformation trajectory. Political transformation, economic transformation and governance remain closely intertwined.

The region remains politically divided: twelve autocracies stand in contrast to 10 democracies. While Malaysia and Sri Lanka achieved modest gains, regression and authoritarian hardening dominate in Afghanistan, Myanmar and Pakistan. In Indonesia, dynastic power politics under Joko Widodo and his alliance with Prabowo Subianto have brought the country's democracy perilously close to autocracy. By contrast, Taiwan and South Korea offered notable examples of democratic resilience. In Seoul, civil society and parliament blocked the imposition of emergency rule in December 2024. In Taiwan, free elections reaffirmed a democratic course despite deepening polarization. These cases illustrate that democratic resilience exists but remains largely reactive. The preventive capacity of democratic institutions to deter or contain authoritarian backsliding is often worryingly weak.



Economically, many countries returned to greater stability. Inflation fell back into target ranges in India, Malaysia, Singapore, South Korea and Taiwan. Vietnam and the Philippines stabilized prices without resorting to recession-inducing interest rate hikes. Yet growth trajectories diverged sharply. India, Vietnam, the Philippines and Bangladesh ranked among the most dynamic performers, while mature economies expanded only moderately and fragile states such as Afghanistan, Myanmar and Laos stagnated. Social inclusion lagged behind macroeconomic performance. In many countries wage growth trailed productivity gains, housing remained a source of political tension and rural regions continued to face deficits in education, health care and infrastructure. Social welfare systems were expanded, but efforts targeting this goal remained selective. Climate change emerged as a structural macroeconomic constraint: droughts strained

water-dependent economies, floods and typhoons damaged agriculture and infrastructure. China rapidly expanded renewable energy capacity, yet coal dependence and the limited adaptive capacity of smaller states constrained progress.

Governance quality stagnated at a comparatively low regional average. Taiwan remains a positive outlier, ranking first overall in the BTI despite rising polarization. Bhutan and Timor-Leste also demonstrate consistency in targeting good governance under difficult structural conditions. Singapore combines authoritarian rule with high efficiency in the use of its assets and long-term planning but continues to show deficits in consensus-building and public consultation. In many of the region's countries, governance quality deteriorated. South Korea struggled with polarization and institutional gridlock, India and Indonesia with the growing veto power of populist elites. In Afghanistan and Myanmar, steering capability has largely collapsed. Gains in Bangladesh and Laos remain selective and fragile. Weak consensus-building stands out as the most persistent governance deficit. Resource efficiency also lags, while international cooperation is comparatively stronger. Overall, the data show that although some authoritarian systems achieve above-average governance in specific areas, democracies perform better on balance. Singapore remains the only clear exception.

The strong correlation between political and economic transformation underscores their interdependence. Liberal democracies such as Taiwan and South Korea combine political openness with stable economic development. Closed autocracies such as North Korea, Myanmar and Afghanistan face both political repression and economic decline. There are, however, important nuances. China, Vietnam, Singapore and Thailand achieve strong economic outcomes under authoritarian rule but remain vulnerable to rising debt, social inequality and political rigidity. Bhutan, Nepal, Sri Lanka and Timor-Leste have advanced democratically, but their economic transformation has lagged, constrained by structural factors tied to their size, geography and resource endowments. Within this triangular relationship, governance acts as a catalyst. Where governance is weak, neither democratic reform nor economic dynamism can be sustained.

Three central challenges stand out for the coming years. First, democracies in the region must find ways to reduce political polarization and strengthen institutional safeguards against democratic backsliding. Second, autocracies face mounting pressure to determine whether they can continue to manage rising socioeconomic tensions without engaging in meaningful political reform. Durable legitimacy will depend less on growth rates than on equitable distribution and climate resilience. Effective, transparent and inclusive governance will determine whether transformation succeeds or falters. Without progress in rule of law, corruption control and consensus-building, many countries risk remaining dependent on geopolitical patrons, external aid or informal markets.

Asia and Oceania is both a laboratory for innovative development paths and a focal point of crisis dynamics. The BTI 2026 makes clear that neither economic performance nor partial reforms are sustainable without sound governance. Political transformation, economic transformation and governance form a triangular nexus in which weaknesses in one dimension undermine progress in the others. The region's future will hinge on whether these three dimensions can be brought into durable balance.

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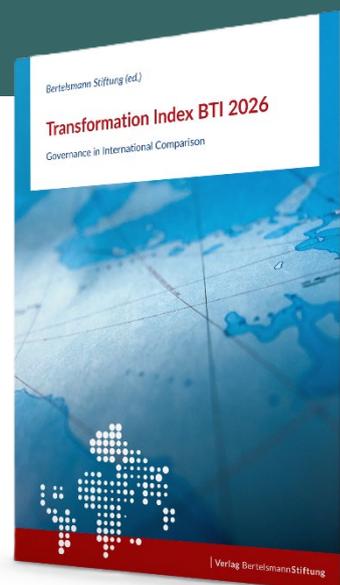
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