Does Innovation Require Democracy?
A Case Study of Taiwan’s and China’s Innovation Process

Conventionally, it has been argued that democratic states would be more favourable for innovation than one-party systems. The contrast between China and Taiwan, however, calls for a re-examination of such a view. According to the Global Innovation Index 2019, China ranks number 14, the only country with a one-party system in the top 20. Taiwan, on the other hand, is not on the list. Dr Lee Chun-Yi, associate professor and director of Taiwan Studies Programme at the University of Nottingham, UK, looks at how innovation is related to the social-political context and presents her preliminary findings at the EAI seminar.

Dr Lee defines democratic states as countries with election process involving more than one political party. She adopts the approach of “open innovation”, which argues that the current knowledge-based economy leads to more interactions between different actors and the innovation process. For innovation to take place, it will require sustainable capital input from both the state and private firms, human talent, as well as competition.

Supposedly, democratic societies like Taiwan are expected to better provide a conducive environment for innovation to flourish. Through her interviews and research, however, Dr Lee observes that this does not necessarily apply to the case of Taiwan and China. Since 2012, market values of larger Taiwanese brands such as HTC and BenQ have shrunk tremendously. On the other hand, it requires a lot of risk-taking and capital for small and medium-sized enterprises to upgrade and engage in innovation, especially without support from the government. While Taiwan is successful in its manufacturing of original equipment, it has huge difficulties scaling up to be an Original Design Manufacturer.

Looking at the aforementioned conditions for innovation, Dr Lee sees both weaknesses and advantages in Taiwan and China. Taiwan, as an exporting economy, has a lot of restrictions on attracting foreign direct investment, which is vastly different from that in China. Bilaterally, Taiwanese investment in China takes up about 70% of Taiwan’s total outward investments, whereas Chinese investment in Taiwan only takes up about 3% of Taiwan’s inward investment. Much Chinese investment was intended to flow to Taiwan’s semiconductors and related industries, but has met with much restrictions. As a result, China has turned to headhunting Taiwanese talents. Since 2010, many Taiwanese began migrating to China for higher paying jobs. Subsequently, preferential measures were rolled out by the Chinese government to attract more Taiwanese youth and talents in high-tech industries and beyond. Nevertheless, interviews also revealed that some of the Taiwanese are concerned that the relatively constrained innovation environment in China which will restrict their ability and performance.

Dr Lee points out that the difference between one-party systems and democratic societies is that in the former, problems in society and the implementation of innovative solutions to solve these problems may be driven by political actors. In contrast, problems and innovative solutions are more likely to be driven by market forces in democratic societies. At this point, for Dr Lee, whether the state actor or the market forces is better at promoting innovation is still an open question.

This summary reflects the personal opinion(s) of the seminar speaker(s) and should in no way be attributed to the East Asian Institute.