

IP and international competitiveness and trade

Intellectual property has increasingly become a source of competitive advantage for businesses. IP titles not only strengthen international competitiveness but are also critical for access to technologies from abroad via imports or foreign direct investment (FDI). Evidence shows that strong IP rights systems are positively correlated with various channels of access to foreign technology. However, additional factors will be necessary for countries to benefit from such inflows of foreign technology and knowledge. Policies considering other factors (e.g. human resources to absorb such knowledge, competition, adequate regulation, and so on) that attract FDI and strengthen opportunities for technology transfer are also needed.

What is meant by international competitiveness and trade and IP?

International trade refers to the exchange of goods and services across borders, while international competitiveness can be defined as a country's position in selling its products in international markets. The role of intellectual property (IP) is increasingly important for both international trade and competitiveness as knowledge increasingly becomes the subject of international transactions and an essential source of a country's ability to compete successfully in global markets. Competitiveness and trade are relevant for innovation and empirical results suggest that: (1) high-technology imports are relevant in explaining domestic innovation both in developed and developing countries and (2) foreign technology has a stronger impact on per capita gross domestic product (GDP) growth than domestic technology for all countries (see e.g. Schneider, 2005).

How can IP serve innovation in that context?

IP systems can serve innovation if they facilitate technology transfer from abroad— either by facilitating licensing, FDI or imports of foreign capital—with embodied technologies. There is evidence to show that IP can help to: (1) attract FDI, which can be an important means of transferring technology to developing countries (Mansfield, 1994); (2) access technology markets and facilitate technology transfer (Branstetter, Fisman and Foley 2006); and (3) exchange knowledge internationally via licensing.

Relatively weak IP protection in a given country may lower the probability that multinational enterprises will invest and transfer their technology; or they may be willing to invest only in wholly owned subsidiaries, or to transfer only older technologies (Mansfield, 1994). Strong IP protection attracts FDI, which leads to increasing levels of technology transfer, international trade and competitiveness. Effects are most pronounced for industries for which IP protection is critical. However, to what extent it spurs local industrial development and innovation is still to be determined (Javorcik, 2004a; Smeets and De Vaal, 2011).

Stronger IP protection has been found to have a positive impact on trade (for example, bilateral manufacturing imports into both small and large developing economies, Maskus and Penubarti, 1995) and on overall trade flows (Primo Braga and Fink, 1997). Stronger protection of intellectual property rights increases flows of manufactured imports (Primo Braga and Fink, 1999). Doanh and Heo (2007) find robust empirical results regarding the link between the enforcement of IPR and trade flows in ASEAN (Association of Southeast Asian Nations) countries. Smith (1999) found that US exports are sensitive to patent rights in importing countries, and the direction of the relationship rests with the threat of imitation.

Another contribution of IP can be to provide opportunities for trading in foreign markets. The value of IP titles is effectively proportionate to the size of market for which they have been granted. Therefore, they are particularly attractive for emerging and developing countries to reap wider benefits from their inventions. Examples of IP other than patents for international competitiveness are the world's most valuable brands (InterBrand, 2012). Examples (in no particular order) include Coca Cola, Apple, Google, McDonalds, Disney, BMW, and Nescafe, among others. Apart from the

quality of their products, these companies have invested huge amounts of money on getting their inventions patented, their designs protected and their marks more distinctive and widespread. Geographical indications are another important tool in international trade particularly in agricultural commodities. Some prominent examples include wine from Bordeaux (France), tea from Darjeeling (India), Swiss chocolates (Switzerland), coffee from Colombia and ham from Parma (Italy). They might provide support for traditional and informal sectors (see [IP and innovators in traditional and informal sectors](#) [1]).

What are policy implications of trade competitiveness and IP?

In deciding whether a particular country's system of protection is too weak, most companies are especially interested in the answers to three broad questions: (1) Can the country's laws protect their technologies?; (2) Is there an adequate legal infrastructure in the country?; and (3) Do the relevant government agencies in the country enforce the laws and provide prompt and equitable treatment to foreign firms? (Mansfield, 1994).

Markets for technology (see [Licensing and markets for IP](#) [2]) are also increasingly important for the circulation of knowledge and technology transactions at the international level, thus governments should improve their knowledge of the functioning of markets for technology and the effect of such markets on economic performance in order to support their development in the most socially beneficial directions (OECD, 2004).

Furthermore, IP systems are not sufficient by themselves to encourage effective technology transfer. Instead, they must form part of a coherent and broad set of complementary policies. Such policies include strengthening human capital and skill acquisition; promoting flexibility in enterprise organization; ensuring a strong degree of competition on domestic markets; and developing a transparent, non-discriminatory and effective competition regime vis-à-vis foreign companies (Maskus, 2000).

Finally, other factors in a country context matter for attracting FDI as well as its composition, including, e.g., effectiveness of the legal regulations governing investment and more advanced privatization processes, low levels of corruption, and low corporate tax rates (Javorcik, 2004b).

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