



## **INTELLECTUAL PROPERTY RIGHTS (IPRs) AND ECONOMIC DEVELOPMENT**

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### **ABSTRACT**

Intellectual property is the commercial application of imaginative thought to solving a technical or artistic challenge. It is not the product itself, but the special idea behind it, the way the idea is expressed, and the distinctive way it is named and described. Economic development can be promoted or hindered by an effective system of Intellectual Property Rights (IPRS). It can play a positive role in encouraging business development, rationalization of inefficient industry stimulate technology acquisition and creation. The development may be harmed by raising cost of imitation and permitting monopolistic behavior of owners of IRPs. Empirical evidence supports that product innovation is sensitive to IPRs in developing countries, while FDI and technology transfer go up when patent rights are strengthened. There is an overall positive impact and growth which depends on the competitive nature of the economy. There are several ways now IPRs can stimulate economic development and growth. In this connection, the above paper strongly discussed the link between Intellectual Property Rights and economic development of the country.

**KEY WORDS:** Intellectual Property Rights, Economic Development, Business Development, patent rights, FDI and Technology.

### **INTRODUCTION**

Intellectual property is the commercial application of imaginative thought to solving a technical or artistic challenge. It is not the product itself, but

the special idea behind it, the way the idea is expressed, and the distinctive way it is named and described.<sup>1</sup>

The expression “Property” is used to describe this value, because the term applied only to inventions, works and names for which a person or group of persons claims ownership. Ownership is important because the potential economic gain provides a powerful incentive to innovate. It is also important to note that intellectual property results from innovation based on existing knowledge. It is the result of creative improvements on what has worked well in the past, or of creative new expressions of old ideas and concepts. With information and communication technologies, knowledge has become the principle source of competitive advantage for both companies and countries.<sup>2</sup>

Technology and creative arts pervade modern society, but not many actually realize that their lives are surrounded by Intellectual creations, from which legal rights of all sorts, including their own, arise. Building public awareness of the role of Intellectual property is a key to fostering a broad understanding of, and respect for it, and the system that promotes and protects it. “To truly convince the public, including society groups, it is essential to engage them in such a way that they all see themselves as stakeholders in a healthy and robust Intellectual property system”<sup>3</sup>

Intellectual property is divided into two main areas: Copyrights (rights of authors, and artistic works) Copyrights related rights (e.g. performer in their performances), and industrial properties (trademarks, geographical indications, patents, industrial design, etc.). The protection of intellectual property is governed by many international treaties and convention, which are implemented by two main organizations, the World Intellectual Property Organisation with its Berne Convention, Paris Convention, etc., and the World Trade Organisation with its TRIPS Agreement. Countries have additionally their national Laws protecting these rights.

Economic development can be promoted or hindered by an effective system of Intellectual Property Rights (IPRS). It can play a positive role in encouraging business development, rationalization of inefficient industry stimulate technology acquisition and creation. The development may be harmed by raising cost of imitation and permitting monopolistic behavior b owners of IRPs. Empirical evidence supports that product innovation is sensitive to IPRs in developing countries, while FDI and technology transfer go up when patent rights are strengthened. There is an overall positive impact an growth which

depends on the competitive nature of the economy.<sup>4</sup>

Stronger IPRS can either enhance or limit economic growth. Stronger and more certain IPRS could well increase economic growth and as mentioned, foster technological change, improving development prospects, if they are structured that way that promotes effective and dynamic competition.<sup>5</sup>

There are two objectives of any system of Intellectual Property Protection. The first purpose of Intellectual Property rights is to promote investments in knowledge creation and business innovation by establishing exclusive rights to use and sell newly developed technologies, goods and services. Without these rights, firms would less be willing to incur the costs of investing in research and commercialization activities. The second purpose is to promote widespread dissemination of new knowledge encouraging right holders to place their inventions and ideas on to the market. Information is like a public good, where developers find it difficult to exclude others from using it. It is socially efficient to provide wide access to new technologies and products, once they are developed at marginal production costs. Such costs could be quite low, causing copying of that certain product.<sup>6</sup>

Having too strong protective systems of IPRs could limit social gains from inventions by reducing incentives to distribute its fruits. However, on the other hand, a weak system could reduce innovation by failing to provide adequate return on investment. There has to be a policy balance found appropriate to the market conditions and conducive to growth.

Intellectual property rights which are protected have also to be enforced. These are punishing infringements and disciplining enterprises that try to extend their rights beyond the level by acting in an anti-competitive manner. These objectives however, require the development of extensive legal and scientific enterprise.<sup>7</sup>

National regimes of Intellectual Property protection strongly depend on the level of economic development. Therefore, IPRs and its development operate in both directions. Governments that strengthen their IPRs systems become wealthier and attain a basis of technological sophistication.<sup>8</sup> Not only legislated IPRs become stronger as economies develop, but enforcement and compliance also rise with income levels. Weak enforcement in developing countries reflects both an unwillingness to pay the high cost of administering as effective IPRs system and

an inability to manage the complex legal and technical issues such a system entails.

### **BENEFITING FROM INTELLECTUAL PROPERTY RIGHTS**

There are several ways now IPRs can stimulate economic development and growth. As mentioned above, IPRs can play a significant role in encouraging innovation, product development, and technical change. Developing countries have IPRs systems favoring dissemination through low-cost imitation of foreign products and technologies. This shows that domestic innovation and invention is insufficiently developed to provide protection. However, inadequate IPRs could stifle technical change even at low levels of economics development, because much invention and product innovation are mostly aimed at local markets and they could benefit from domestic protection of patents, utility models, and trade secrets.

Developing countries have to adopt new management and organizational systems and techniques for quality control, which can markedly raise productivity. Such investment are costly, but have high social returns because they are crucial for raising productivity toward global norms. Countries keeping the weak standards could remain dependent on dynamically

inefficient firms that rely on counterfeiting and imitation.

Through developing their IPRs regimes, unilaterally or through the TRIPS Agreement, developing countries hope to attract greater inflows of technology. The transfer of technology across Borders can be achieved through three channels: *international trade in goods*, *Foreign direct investment (FDI)* within multinational enterprises, and *contractual licensing* of technologies and trademarks to unaffiliated firms, subsidiaries, and joint venture. Transfer of technology in each channel on local protection of IPRs.

- *International Trade*: Importing of goods and services leads to a transfer of technology. Importing capital goods and technical inputs could directly reduce production costs and increase productivity. Stronger patent rights in developed economies would reduce trade because of a market – power effect and diversion of trade to developing countries. Trade volume impacts are significant for developing countries that undertake extensive patent revisions. Many of the largest predicted impacts are in nations with strong imitation capacities like Argentina and Brazil, whereas India would

experience relatively weak, though weak, though positive, trade impacts.

- *Foreign Direct Investment:* The second main channel of technology transfer is FDI. IPRs have varying importance in different sectors. Firms that invest in low-technology goods and services should depend less on the strength of the IPRs and more on the input costs and market opportunities. Investors with products or technologies which are costly to imitate, would pay little attention to local IPRs. However, firms with easily copied products and technologies, such as pharmaceuticals and software, would be quite concerned about the local IPR system to deter imitation.<sup>9</sup>
- However, licensing to unrelated firms has been seen as riskier with weak IPRs. This can be seen in other industries as well, and the findings show that licensing was viewed as insecure compared to FDI in high-technology sectors when there is a weak IPRs protection. Firms therefore, likely undertake FDI than licensing when they own complex technology, produce highly differentiated products and face high licensing

costs. These firms tend to internalize through direct investments in a majority-owned subsidiary, and as IPRs are upgraded. Licensing cost fall and it becomes easier to discipline licensees against the misuse of a trademark or a technology.

Stronger IPRs have a significant and positive impact on the transfer of technology to developing countries through each of these channels (Imports, FCI and market-based technology transfer). This has especially an impact in middle-income developing countries with significant imitative capabilities. In least developed economics the impact would be positive but small. The reason for this is that the countries with weak IPRs could be isolated from the modern technologies and would have to develop their own technical knowledge from their own resources, which would be difficult and costly. These countries would also gain little spill over benefits of new technologies in their economics and the technologies available in those nations would be outdated. Finally, countries with weak IPRs would experience limited incentives for domestic innovation and relatively few inward technology transfers.<sup>10</sup>

From these findings, one can conclude, that the strength of IPRs and the

ability to enforce contracts have important effects on decisions by multinational firms on where to invest and whether to transfer advanced technologies.<sup>11</sup>

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