

Title: Intellectual Property Rights, Foreign Direct Investment, and Industrial Development

Abstract:

Does the adoption of stronger intellectual property rights in developing countries enhance or retard their industrial development? How does such a policy shift affect developed countries, where most innovative activity is concentrated? We address these questions in a North-South product cycle model in which innovation, imitation, and the North-South flow of FDI are all endogenously determined. In the model, a strengthening of IPR protection in the South reduces the rate of imitation while it increases the rate of innovation. The reduction in imitation risk makes the South a more attractive location for Northern multinationals. Indeed, we find that the increase in production activity of multinationals more than offsets the decline in production undertaken by Southern imitators so that the South's share of the basket of goods produced in the global economy actually increases. Furthermore, real wages of Southern workers increase even though prices of goods produced by multinationals exceed those of Southern firms.