

Intellectual Property Rights Reforms and the Quality of Exported Goods

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Abstract : It is widely acknowledged that the quality of a country's export matters more decisively than the quantity it exports. Hence, understanding the drivers of exported goods' quality is a relevant policy question. Among other things, product quality upgrading is a considerable cost uncertainty venture that can be undertaken by an entrepreneur. Once a product is successfully upgraded, however, others can imitate the product, and hence, the returns to the pioneer entrepreneur are socialized. Along with this line, a government policy such as intellectual property rights (IPRs) protection which lessens the non-appropriability problem and incentivizes cost discovery investments becomes both a panacea in addressing the market failure and a sine qua non for an entrepreneur to engage in product quality upgrading. In addendum, product quality upgrading involves complex tasks which often require a lot of knowledge and technology sharing beyond the bounds of the firm thereby creating rooms for knowledge spillovers and imitations. Without an institution that protects upstream suppliers of knowledge and technology, technology masking occurs which bids up marginal production cost and product quality fall. Despite these clear associations between IPRs and product quality upgrading, the surging literature on the drivers of the quality of exported goods has proceeded almost in isolation of IPRs protection as a determinant. Consequently, the current study uses a difference-in-difference method to evaluate the effects of IPRs reforms on the quality of exported goods in 16 developing countries over the sample periods of 1984-2000. The study finds weak evidence that IPRs reforms increase the quality of all exported goods. When the industries are sorted into high and low-patent sensitive industries, however, we find strong indicative evidence that IPRs reform increases the quality of exported goods in high-patent sensitive sectors both in absolute terms and relative to the low-patent sensitive sectors in the post-reform period. We also obtain strong indicative evidence that it brought the quality of exported goods in the high-patent sensitive sectors closer to the quality frontier. Accounting for time-duration effects, these observed effects grow over time. The results are also largely consistent when we consider the sophistication and complexity of exported goods rather than just quality upgrades.

Keywords : exports, export quality, export sophistication, intellectual property rights

Conference Title : ICIPRP 2019 : International Conference on Intellectual Property Rights Policy

Conference Location : Miami, United States

Conference Dates : March 11-12, 2019