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Työn nimi-Arbetets titel-Title Intellectual Property Rights in North-South Trade - Technology Transfer Through FDI and Licensing			
Oppiaine-Läroämne-Subject Communication			
Työn laji-Arbetets art-Level Master's thesis		Aika-Datum-Month and year 2001-11-06	Sivumäärä-Sidantal-Number of pages 84
<p>Tiivistelmä-Referat-Abstract</p> <p>This essay aims at providing a framework for evaluating the desirability of stronger intellectual property rights in developing countries. Instead of assuming that product imitation in the developing countries happens through observation and reverse engineering, the emphasis is on active technology transfer. Foreign direct investment and technology licensing are evaluated here in a unified outline to find out the growth effect of intellectual property protection regime change. The main sources are articles by E. L.-C. Lai (1998) and G. Yang and K. Maskus (2001). By assumption the model consists of two countries, North and South, and all innovations are carried out in North. Innovative Northern companies choose to outsource production to South to gain from lower production costs. Due to inexistent or weak intellectual property protection the Northern foreign direct investment or licensing venture faces the threat of imitation. Choosing licensing allows innovators to combat the problem with costly licensing contracts. Yet naturally both types of technology transfer would benefit from better intellectual property protection and less imitation.</p> <p>If technology transfer to South occurs either through licensing or foreign direct investment, South should strengthen its intellectual property rights protection, as both countries will gain. Improved protection curbs the imitation activity and thus encourages more Northern companies to invest in South. As resources are freed in North and the expected return from innovations rises, new incentives to innovate emerge. Increased innovation corresponds to economic growth not only in North but also in South via technology transfer. Southern workers learn while employed by the multinational enterprises or licensees. The resulting knowledge spillovers support worldwide gain from better intellectual property protection.</p>			
<p>Avainsanat-Nyckelord-Keywords</p> <p>intellectual property rights innovation developing countries patent protection economic growth licensing foreign direct investment</p>			
Säilytyspaikka-Förvaringsställe-Where deposited			
Muita tietoja-Övriga uppgifter-Additional information			