

**Innovation versus Imitation:  
Intellectual Property Rights in a North-South Framework**  
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This paper uses a North-South dynamic endogenous growth model to examine how the optimal degree of Intellectual Property Rights (IPRs) protection offered by poor countries to foreign firms alters in response to changes in transport costs, the ability to innovate and country size. Northern firms develop goods that can be traded and Southern firms can choose either to copy existing Northern goods or to develop their own goods. Their decision will be based on the costs and profitability of imitating versus innovating, which will in turn depend to some extent upon the degree of protection of IPRs. Stronger IPRs protection reduces the profitability of copying and thus affects the decision of whether to innovate or imitate. Therefore the level of IPRs protection has implications for the location of production so that IPRs policy has an effect on output in each country as well as on global growth and countries take account of this when deciding their policy.

The first result of the paper is that the desired level of optimal IPRs protection are very different in this framework than if, as in several earlier papers, Southern firms are unable to choose between innovation and imitation. Intermediate levels of IPRs protection are unlikely to be optimal for either country. The optimal strategy is either not to protect against Southern imitation or to provide sufficient protection that Southern firms begin innovating. The paper also shows that the benefit to both countries from strong IPRs inducing innovation by Southern firms falls as Southern innovation capacity has less effect on the world economy (through higher Southern research costs or a smaller Southern work force). Furthermore the North benefits more than the South from strong IPRs inducing innovation by Southern firms. This implies that as Southern countries become better able to research there is likely to be a significant period when the North seeks to persuade the South to protect IPRs when it is not in the South's best interests, and this conflict is likely to be stronger for large Southern countries, such as China. Falling trade costs make it less likely that the South desires strong IPRs, but the effect on the optimal policy of the North is ambiguous.

Therefore IPRs are likely to be more of an issue when large Southern countries are better able to undertake research, possibly through communication or education improvements. This matches the increasing stress on intellectual property rights by certain developed countries, which has led to the inclusion of the Agreement on Trade Related Intellectual Property Rights (TRIPs) in the statute of the World Trade Organization in 1994.