

Module summary of IPR in India and FDI in Indonesia

Agenda

- IPR case in India
- FDI and economic growth
- Information and data on business environment

India's IPR case

- Intellectual justification for patent
 - A social, not a private, contract
 - Not just to reward innovations but to reward *disclosure*
 - Disclosure allows copying upon expiry.*
- Full disclosure required when filing for protection
 - From US Patent and Trademark Office:
 - “The specification is a written description of the invention and of the manner and process of making and using the same. The specification must be in such full, clear, concise, and exact terms as to enable any person skilled in the art or science to which the invention pertains to make and use the same.”

India's IPR case

- Patent system is founded on a *social* principle
- Not whether but what social principles justify the patent protection
 - If disclosure justifies the protection, then delaying diffusion should take away that justification?
 - National emergencies justify compulsory licensing
 - Access to and affordability of life-saving drugs: Indian and AIDs cases.
 - Economic development of poor countries
 - This is very controversial because it vastly broadens the grounds to break the patent protection.
 - Patent protection can be broken not just in pharmaceutical but also in, say, automobile industry.

FDI: Controversies

- **A lot of international business is FDI**

- FDI-related trade exceeds inter-firm trade
- Why China is a huge exporter

- **FDI as a growth engine?**

- Opportunistic FDI: Capitalize on local inefficiencies (Krugman hypothesis on “fire sale”)
- Effects on the local firms
- Volatility of foreign vis-à-vis domestic capital: Income debit item in the current account and FDI credit item in the capital account.
- Inconclusive evidence on FDI

Caves, Richard E. *Multinational Enterprise and Economic Analysis*. 2nd ed.
Cambridge University Press, 1996. ISBN: 9780521478588.

Professor Richard Caves at Harvard:

- The academic authority on FDI and author of Multinational Enterprises and Economic Analysis.
- P.237: “The relationship between a LDC’s stock of foreign investment and its subsequent economic growth is a matter on which we totally lack trustworthy conclusions.”

World Bank and NBER work:

- “There is no evidence of any “growth bonus” associated with increasing the financing share of foreign savings. In fact, the evidence suggests the opposite: throughout the 1990s, countries with higher self-financing ratios grew significantly faster than countries with low self-financing ratios.”

FDI Controversies

- **The tricky issue of establishing causation**
- **Limitations: FDI concentration**
 - Mainly among developed countries:
 - FDI shares by low and middle income countries: 1) 10% in 1980 and 1990; 2) Mid-1990s: Higher shares (above 30%), 3) Low again: Now about 10 to 20%.
 - Among a few developing countries:
 - Over 90 percent of FDI flows to developing countries have gone to middle-income countries.
 - Natural resource rather than manufacturing FDI.
- **Whether FDI is an effective growth engine?**

Business environment

A working and broad definition:

- Business environment consists of those non-market factors that are not subject to—perfect—controls of firms, entrepreneurs, at least in the short run.
- Examples: 1) Organization of political and economic systems, 2) government policies, 3) shocks

Case examples:

- IPR in India:** Why import substitution strategy successful here but not elsewhere? Hypothesis: Domestic firms are efficient, which requires an efficient financial system.
- Google in China: Censorship

Suggested sources on business environment

World Bank Institute:

- <http://wbi.worldbank.org/wbi/> :
Many different themes such as globalization, governance, corruption, poverty, etc.
- Excellent working papers on various topics.

Multilateral Investment Guarantee Agency:

<http://www.miga.org/>

International Finance Corporation: <http://www.ifc.org/>

ISI Emerging Markets: <http://site.securities.com/>

CIA Factbook: www.cia.gov/cia/publications/factbook/

Suggested sources: Publications

Investment climate studies and data:

- Voices of firms: World Business Environment Survey (WBES)
- Doing Business in 2004, 2005, 2006, 2007
- World Investment Report: Annual data and report
- World Development Report: Annual report with different themes
- Economist Intelligence Unit: Detailed countries studies.
- Transparency International.
- World Bank Governance Indicator: A compilation of many survey data in six governance areas such as control of corruption, political stability, accountability, effectiveness, etc.

Suggested sources: Publications

Caution in using the data

- Levels of constraints: Different countries face different levels of a single constraint, such as red-tape.
- Areas of constraints: Different countries face different areas of constraints, for example, red-tape but not financing constraint.
- Political sensitivity of certain questions: corruption question in East Asia.

Suggested sources: Publications

An example from WBES:

- Tax and regulation and judicial efficiency of China ranked better than India
- But the same indicators ranked China better than the United States.
- A good habit to have: Doing a plausibility check.
- A plausible explanation:
 - Firms in India, China and United States are concerned about different areas of constraints.
 - Firms in China are more concerned about financing issues; firms in India and US are more concerned about tax and legal issues.
- Suggestion:
 - Do not write an entire paper based on these survey data.
 - Combine the survey data with academic papers, newspaper accounts and economic and business data.

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