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Assessing the Impacts of Intellectual Property Rights on Trade Flows in Latin America

Juan S. Blyde

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ASSESSING THE IMPACTS OF INTELLECTUAL PROPERTY RIGHTS ON TRADE FLOWS IN LATIN AMERICA

Juan S. Blyde

I. INTRODUCTION

The protection of intellectual property has been a subject of great contention between developed and developing countries in recent years. Although the Agreement on TRIPs was signed by the members of the World Trade Organization (WTO) during the Uruguay Round of trade negotiations, its provisions are still viewed with animosity by many developing countries.

The main arguments against strengthening IPRs can be summarized as follows: (i) the cost of administering a modern intellectual property system might be prohibitive large, particularly for nations with limited financial resources and more urgent needs; (ii) wide access to the markets of some goods might be restricted as domestic competition is curved and more market power is granted to the foreign providers; (iii) the restriction of the domestic market will reduce national production with detrimental consequences on employment; (iv) the lower degree of competition will also increase prices, a situation that is particularly troublesome for the case of medicines and pharmaceutical goods.

Many developing countries argue that providing a stronger intellectual protection environment might not be enough to encourage domestic research and development (R&D) since they often lack many of the other elements that are necessary to pursue successful innovation. Therefore, there is a widespread perception that the losses associated with strengthening IPRs systems might outweigh the benefits that could be obtained, at least in the short run.

The benefits of IPRs protection, however, could go beyond the ignition of domestic innovation. It has been cited that one of the main advantages of IPRs protection for developing countries might be in the diffusion of technology (Maskus [2000]). Stronger intellectual protection, for example, could attract greater inflows of high-technology goods therefore expanding the stock of technological knowledge available in the country. Many empirical studies have shown that the diffusion of technology through the international trade of technological goods generate significant effects on the productivity of the importing countries (see Coe and Helpman [1995]; Coe, Helpman and Hoffmaister [1997] and Blyde [2003]).

Also, a stronger IPRs system could attract inflows of technological knowledge through the expansion of foreign direct investment (FDI). Multinational Corporations (MNCs) can generate important spillovers into the local economy, especially in upstream and downstream sectors,[1] and can pursue local research and development to exploit the intrinsic characteristics of the domestic market. This implies that even if a country is not sufficiently advanced to generate its own

[1] See for example Kugler [2000].

innovations after strengthening IPRs protection, invention activity can still be boosted by attracting innovative foreign firms.

A complete evaluation of the net effects of the TRIPs agreement in developing countries would require a broad assessment of all the costs and benefits described above. This is a formidable task that goes beyond the scope of this paper. Here, we concentrate on a rather small task and analyze the effects of IPRs over the flows of international trade flows, particularly to Latin America. As stated above, trade flows and especially, flows of high-technology goods can be a source of technology diffusion. In that sense, exploring whether the international flows of high-technology goods are sensitive to IPRs protection in Latin America can be useful if one would like to consider the appropriateness of using intellectual property as a tool to promote technology diffusion throughout the region. Another source of technology diffusion is, of course, FDI. The effects of IPRs over inflows of FDI in Latin America have been already analyzed in Blyde and Acea [2003]. Therefore, this paper complements that analysis by exploring an alternative route by which intellectual property could diffuse technology.

The rest of the paper is divided as follows: Section II presents a brief theoretical background on the relationship between IPRs and trade flows. After a brief review of the empirical literature, Section III describes the data, the econometric model and the results. This section also provides some insights and potential implications of the main findings. Finally, Section IV concludes.

II. THEORETICAL BACKGROUND

Contents

As explained in Blyde and Acea [2003] and Maskus [2000], an intellectual property system seeks to create a balance between access to knowledge and the creation of new ideas. On the one hand, knowledge is non-rival; therefore, since the marginal cost of providing a new idea to an additional user might be quite low or zero, static efficiency requires a wide access to users. On the other hand, knowledge also bears characteristics of non-excludability in the sense that information that is potentially valuable can be easily copied and reproduced by others. If this is the case, the market would underinvest in the production of new knowledge because innovators would not be able to recover their R&D costs. Dynamic efficiency then requires incentives to invest in new information for which social value exceeds development costs. The protection of intellectual property must seek a balance between the static efficiency of making information widely available to users and the dynamic efficiency of providing enough incentives to generate new knowledge.

The protection of intellectual property is provided at the national level, therefore, differences across countries (and changes over time) of national laws and levels of enforcement affect the international flows of goods that are subject to intellectual protection. According to Maskus and Penubarti [1995], IPRs can affect international trade flows in several ways. For example, in a market initially served by foreign goods and infringement products,[2] the strengthening of IPRs would create two opposite effects: on the one hand, imports might increase as foreign firms would face increasing net demand for their products reflecting the displacement of pirates (a market-expansion effect). On the other hand, as a result of the reduced competition, the foreign firm would experience a demand with lower elasticity for its product and so it will be tempted to cut its exports to this market (a market-power effect). Given that the market-expansion and the market-power effects impact bilateral trade in opposite ways, the net effect is theoretically ambiguous.

Strengthening IPRs protection may also have a further negative effect on trade flows. That is the case when a firm chooses to serve the foreign market by FDI or by licensing its intellectual asset instead of exporting the product (Horstman and Markusen [1987]). This counteracts the market-expansion effect and generates a further source of ambiguity. Given this, an empirical investigation is required in order to analyze the net impact of intellectual property on trade flows.

[2] It can be argued that once a product has been imitated, unauthorized copies of this product do not necessarily need to exhaust the entire domestic market immediately because imitators might face several limitations (i.e. financial constrains, lack of labor force, poor distributional networks, etc.). Additionally, even in a weak IPRs system, the enforcement levels might be able to deter piracy in some segments of the market, for example, at the government level. Accordingly, it makes sense to conceive an initial equilibrium with a foreign firm and domestic competitive fringe.

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III. EMPIRICAL SECTION

The effects of strengthening IPRs over trade flows have already been analyzed in cross-sectional studies. For example, Maskus and Penubarti [1995 and 1997] and Smith [1999] find strong evidence showing that countries with higher levels of protection attract larger flows of imports from innovative countries. The results are particularly significant for industrializing countries with strong imitation skills. These countries attract more trade because larger shares of their markets are served by domestic production, therefore, stronger IPRs reduce infringement activity and substitutes domestic production for imports.

Measuring the degree of intellectual protection of a country on a consistent international basis is not a trivial task. The extent to which intellectual property is protected is not easily observable because it depends on a set of non-measurable factors like the legal framework, the capabilities for administering the IPRs system or the effectiveness of the judiciary apparatus to enforce regulation. One of the commonly used measures of intellectual protection in empirical studies is the Rapp and Rozek [1990] index of patents rights. This index, which is available for a cross-section of countries, measures the conformity of the legal text of each nation with the minimum standards proposed as guidelines by the US Chamber of Commerce [1987]. A similar index was developed later by Ginarte and Park [1997] extending the Rapp and Rozek approach to consider other components of the law. For example, the authors revised the statutory provisions that are related to the "enforcement" of the law, which is an element that is not present in the Rapp and Rozek index. The Ginarte and Park (GP) index scores a nations patent system from 0 to 5 with higher values indicating stronger levels of protection. The GP index is available not only across countries but also over time. Therefore, it is particularly useful for investigating with panel data.

A. Level of Intellectual Protection in Latin America

Table 1 shows the average of the GP index for Latin America. Averages for other regions are also presented for comparison purposes. Among all the regions, Latin America exhibits the lowest average in 1985 and in 1990. However, in 1995, the region experiences a significant improvement of its intellectual protection as many of the countries began to adopt the provisions of the TRIPS agreement. In general, the level of patent protection increases with the level of income with the Organization of Economic Co-operation and Development (OECD) region showing the strongest protection.[3] The same is true within the Latin American region (See Figure 1).

Comparing Latin America with other regions it can be seen that the levels of IPRs protection are relatively weak, even in 1995. The level of protection falls behind the average for the OECD countries, the East Asian countries and also the average for the entire sample.

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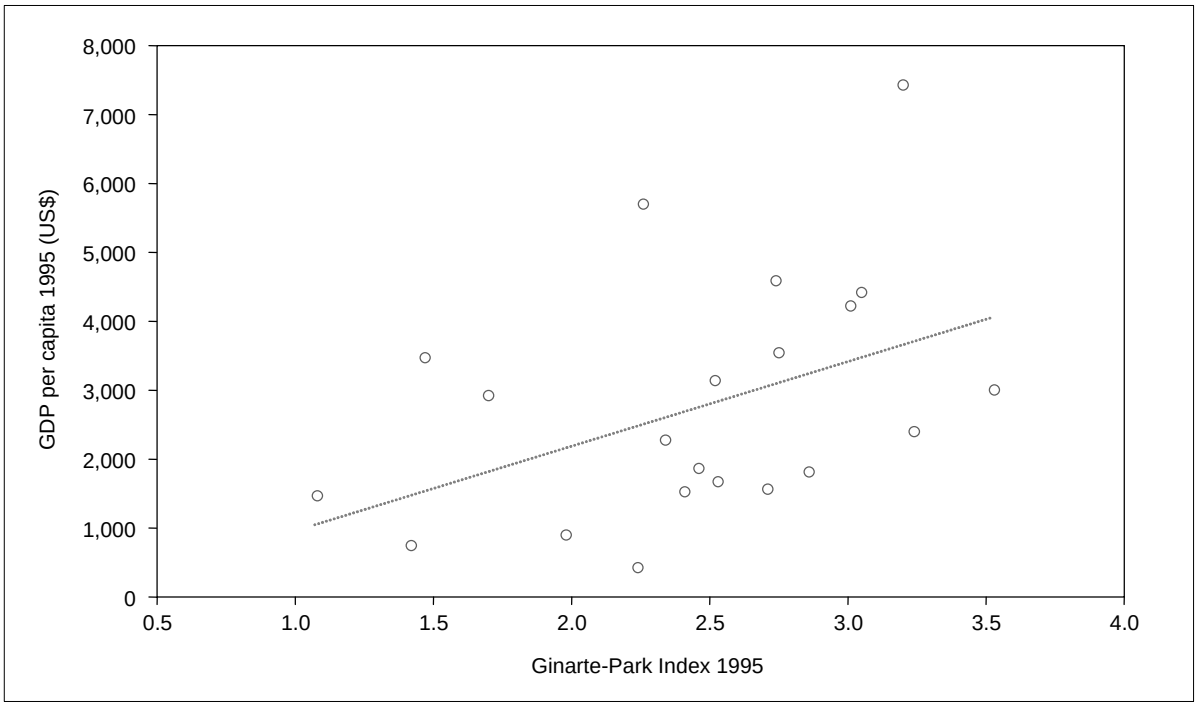
[3] It can be noticed, however, that the African countries scored relatively well given their income levels. This results from the fact that they have adopted British laws and granted automatic patent protection to British patents (Park [2001]).

FIGURE 1
INTELLECTUAL PROTECTION AND LEVEL OF DEVELOPMENT IN LATIN AMERICA



B. The Effects of IPRs on Trade Flows

We now turn to the effects of strengthening IPRs protection on Latin America's trade flows. According to previous empirical work, middle-income industrializing countries with relatively weak IPRs systems should expect the largest increases on bilateral imports as their IPRs strengthen (Smith [1999]). The rationale for this result is simple: industrializing countries have strong imitation capabilities, therefore, a large share of their markets might be served by infringement activity. As IPRs become stronger, pirate goods are replaced by foreign imports generating a market-expansion effect that might be quite large. If this is the case, the market-expansion effects will outweigh the market-power effect generating a positive impact on trade flows.

On the other hand, for poor countries with weak patent rights and weak imitative capacities, the market-expansion effect might not be sufficiently strong since a large share of these markets might be already served by foreign providers. In this case the market-expansion effects might not outweigh the market-power effect. The net effect is then ambiguous.

Many of the nations in Latin America are middle-income industrializing countries. In principle, we expect that stronger IPRs will generate an increase on bilateral imports, particularly on IPRs sensitive goods.

C. The Gravity Model

To empirically estimate the impact of IPRs protection on bilateral trade flows we construct a gravity model. The gravity model has been used successfully to estimate different types of flows such as trade, FDI and migration.[4] In its standard specification, trade flows between two countries depend positively on the product of the GDPs of both countries and negatively on the distance between them. Other variables are usually added to account for other factors that might affect bilateral trade flows. We follow an specification similar to Rose and Glick [2001] and also include the Ginarte-Park index as an additional explanatory variable:

$$\ln(T_{ij})_t = \beta_0 + \beta_1 \ln(Y_i Y_j)_t + \beta_2 \ln(Y_i Y_j / Pop_i Pop_j)_t + \beta_3 \ln(D_{ij}) + \beta_4 (Lang_{ij}) + \beta_5 (Col_{ij}) + \beta_6 \ln(Tar_i)_t + \beta_7 (GP_i)_t + \varepsilon_{ijt} \quad (1)$$

The variables are defined as follows:

- T_{ij} is the imports of country *i* from country *j*.
- *Y* is real GDP.
- *Pop* is population.
- D_{ij} is the distance between country *i* and country *j*.
- $Lang_{ij}$ is a dummy variable which is equal to one if *i* and *j* have a common language.
- Col_{ij} is a dummy variable which is equal to one if *i* ever colonized *j* or viceversa.
- Tar_i is the un-weighted MFN average tariff rate in country *i*.
- GP_i is the Ginarte-Park index of patent protection in country *i*.

D. Data Set

The data set consists on bilateral imports of 21 Latin American countries from 19 OECD countries over the years: 1985, 1990, 1995. Accordingly, there are 1197 observations. We follow Rose and Glick [2001] and add year-specific intercept terms. The complete list of data sources and countries is given in Appendix A.

It is important to note that all the variables in the specification are bilateral in nature except for the last two: the tariff rate and the Ginarte-Park index. These variables are related only to the recipient country implying that in estimating these coefficients we do not have 1197 independent observations but rather 63 (21x3) of them. Accordingly, we use clustered standard errors for the estimation. This procedure adjusts the standard errors upwards while leaving the coefficients unaffected.[5]

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[4] The gravity model has good theoretical support. See Frankel [1997].

[5] We follow Stein and Daude [2001] on this.

E. Results

The results are shown in Table 2. Each row represents an equation for each of the manufacturing sectors. The last two rows include equations for a pool of all the manufacturing sectors and a pool for the patent sensitive. The patent sensitive sectors are identified by Smith [1999] as those producing goods with substantial R&D investments and/or goods with high propensities to be patented.[6]

The coefficients for the baseline variables exhibit, in general, the expected signs. A striking result of Table 2, however, is the lack of significance for the coefficients of the patent protection. Only one of the coefficients for the patent sensitive sectors, pharmaceuticals, is significantly different from zero and is negative. This indicates the presence of a potentially strong market-power effect. For the rest of the manufacturing sectors, the coefficients are significant only in four of them: Food, Beverages, Wood and Cork and Leather. According to Maskus and Penubarti [1995], the patent index might be a proxy of the strength of copyright and trademark laws. It is possible that the positive coefficients on these four sectors, specifically Food and Beverages, reflect the fact that these sectors suffer from considerable misappropriation of their trademarks.

The lack of significance for the coefficients of the patent protection is puzzling, particularly since we expected that Latin America, as a region, could be characterized as having weak IPRs and strong imitation skills. One problem with this assumption is that there might be large differences in terms of imitation capabilities within the region. For the most industrialized economies with good capacity to imitate, the market-expansion effect should be larger than the market-power effect and so, a positive flow of imports should be expected as IPRs strengthen. For the less developed countries of the region, however, the market expansion effect could be rather small. In fact, if the market-power effect is strong, the net effect on imports might be negative. The problem might occur when we combine all the countries in the same group. The positive effects might cancel out with the negative effects generating a coefficient estimate that is not significantly different from zero.

In order to control for this possibility, we split the sample in two subgroups: the most industrialized countries of the region and the rest. We use per capita GDP to do this. Following a World Bank classification for the level of development [1992], we consider in the first group all the countries that exhibited in 1990 an income per capita higher than $ 2,600. All the other countries are included in the second group. See Appendix A for list of countries.

We create dummy variables for these two sets of countries and let them interact with the GP patent index. We also include the dummies alone in the regression to allow for fixed effects related to development but unrelated to patent protection. The results are shown in Table 3. It can be seen that the number of significant coefficients of patent protection from the group of more industrialized economies increased significantly when compared to the previous results. A second

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[6] The patent sensitive sectors are: Chemicals, Fabricated Metals, Machinery, Electronics, Transportation Equipment and Instruments.

important observation is that all the patent coefficients for the high income per capita countries are larger in magnitude than the coefficients for the low income per capita countries validating the assumption that the market expansion effect is larger in countries with better imitation skills.

It is worth noting that the negative coefficient for the pharmaceutical sector appears now only in the group of low income per capita countries. For the high income group this coefficient is positive although not significantly different from zero. This implies that the market-power effect of this sector is dominant only among the less developed economies of the region. The same conclusion applies to the apparel sector.

It should be noticed that the effects of patent protection on goods that are difficult to imitate, such as electronic, fabricated metals and transportation equipment are small and statistically different from zero only at the 10% level. This result presumably reflects the existence of a limited capacity to imitate even in the more industrialized countries of the region.

The results are consistent with the expectations that countries with relatively good levels of industrialization should exhibit a large market expansion effect and therefore a strong positive impact over their imports. On the other hand, for countries with low levels of industrialization the net trade effects are relatively weak or insignificant. This also implies that the most industrializing economies of the region are the ones that should expect the largest adjustments in domestic production and labor as the production of their infringement sectors will be progressively replaced by the surge of imports. This does not necessarily mean that the country as a whole will be worse off. Consumers might benefit from greater quality and perhaps increased variety of goods. At the same time, some of the displaced workers might find employment in other noninfringing firms (at a higher wage) or would start their own enterprises.[7] Finally, the imports of technology goods can generate important spillovers by diffusing advance technology from abroad.

Using the results of the model it is possible to infer the potential impacts that the completion of the TRIPs agreement might generate over the imports of the region. According to Maskus [2000], a lower bound implementation of TRIPs standards is consistent with a value of 3.0 in the Ginarte and Park index. According to the author's calculations, middle to low-income countries will reach a value of 3.25 in the GP index after the agreement is completed while middle to middle-high income countries will typically reach a value of 3.75. We simulate the impacts of TRIPs on our two sets of countries. We use the average index values for the year 1995 as our benchmark and assume that after the TRIPs implementation the GP index will take values of 3.25 and 3.75 for the low and high income per capita countries respectively.

The results are shown in Table 4. It can be seen that the largest flows of goods will go to the more industrialized countries since this is the group with the largest and most significant elasticities. These countries will experience an increase of imports of $ 5.1 billion representing 4.4 percent of

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[7] By studying the effects over trade flows is not possible to go too far in analyzing the effects over employment. A more specific analysis on the static and dynamic effects of IPRs on the labor force would be required in order to evaluate the employment effects of intellectual protection.

their total manufacturing imports in 1995. More than half of this value will be on high-technology goods. It is worth noting that this effect will take years to emerge as the obligations in TRIPs will be introduced only progressively. On the other hand, the low income per capita countries of the region will experience a very small increase in their level of imports and most of them will not be on high-technology goods. This result confirms that the expansion market effect in these countries is relatively weak.

According to these results, one should expect that a potential diffusion of technology via international trade of technological goods might take place from strengthening IPRs protection, but only to the most industrialized economies of the region.

IV. CONCLUDING REMARKS

Contents

A proper IPRs system should balance the need for making information widely available to users at a relatively low cost and the necessity to provide innovators enough incentives to guarantee a continuous flow of inventions. As Latin American countries strengthen their IPRs systems in compliance with the TRIPS agreement, they are likely to experience significant changes in their bilateral trade flows from the industrialized world. This paper investigates how important are these changes.

It is found that the most industrialized countries of the region experience the largest increases in the flows of imports while the countries with relatively lower level of industrialization present weak or, very often, insignificant effects. A direct consequence of this is that the most industrializing economies are the ones that should expect the largest adjustments in domestic output and labor as the production of their infringement sectors will be replaced progressively by the surge of imports.

The results show that the positive effects of patent protection on the imports of goods that are difficult to imitate are relatively weak. This presumably reflects the existence of a limited capacity to imitate even in the more industrialized countries. Overall, the sensitivity of high-technology trade to IPRs protection in Latin America implies that -provided that these flows constitute good mechanisms for transferring technology from developed countries- stronger IPRs might generate potential efficiency gains in the region.

It should be emphasized that strengthening IPRs will also encompass considerable costs to the countries in the region, as stated in the introduction of this paper. Whether these costs are larger than the benefits will require a comprehensive analysis that goes beyond the scope of this paper. It will be normal to expect that in the short-run, most likely the effects will entail a redistribution of innovation and imitation of rents away from intellectual property users in Latin America to intellectual property developers in the North. However, in the longer term, there might a positive impact in the region -specially among the middle-income countries- as stronger IPRs might have significantly effects on the imports of high technology goods. This paper has presented some evidence supporting this claim.

Contents

APPENDIX A

Data Sources

Bilateral trade: International Trade by Commodity Statistics. OECD.

Real GDP: World Development Indicators. World Bank.

Population: World Development Indicators. World Bank.

Distance: Rose and Glick [2001].

Language and Colonial dummies: Rose and Glick [2001].

Tariff Rate: World Bank based on different sources: WTO, UNCTAD, IDB.

Patent Protection Index: Ginarte and Park [1997].

Set of Countries

The 19 OECD countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, United Kingdom and United States.

The 21 Latin American countries are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

The Latin American Countries with income per capita higher than $ 2,600 in 1990 are: Argentina, Brazil, Chile, Costa Rica, Mexico, Uruguay and Venezuela.

TABLE 1
GINARTE AND PARK INDEX
(Averages)

Region	GP85	GP90	GP95
OECD	3.54	3.60	3.84
East Asia	2.65	2.73	3.17
Rest of Asia	2.10	2.04	2.06
Latin America	1.83	1.86	2.50
Middle East and Europe	2.13	2.10	2.27
Africa	2.41	2.42	2.49
Full sample	2.46	2.47	2.72

Source: Ginarte and Park [1997].

TABLE 2
GRAVITY EQUATIONS FOR IMPORTS

	Baseline						Patent Rights	
	GDP	GDP per capita	Distance	Language	Colony	Tariff	GP	R2
Industries								
Food	1.17	-0.60	-4.11	3.80	-2.80	-0.12	0.86	0.30
	(20.03)**	(2.71)**	(9.18)**	(7.98)**	(5.08)**	(0.35)	(4.06)**	
Beverages	1.37	-0.52	-5.50	2.07	1.98	-1.50	0.70	0.38
	(17.58)**	(1.70)*	(11.50)**	(4.38)**	(3.22)**	(3.47)**	(2.41)**	
Tobacco	0.83	0.23	-5.08	2.66	-2.20	-0.82	0.43	0.28
	(9.16)**	(0.77)	(15.94)**	(5.75)**	(2.53)**	(2.11)**	(1.42)	
Textiles	1.75	-0.01	-3.63	1.97	1.10	-1.19	-0.09	0.49
	(18.33)**	(0.04)	(10.82)**	(3.84)**	(1.59)	(3.70)**	(0.35)	
Apparel	1.72	-0.25	-3.89	2.88	1.16	-2.59	-0.36	0.49
	(15.33)**	(0.83)	(9.38)**	(5.87)**	(1.98)**	(6.80)**	(1.07)	
Wood and Cork	0.90	0.06	-5.75	4.91	-3.22	-1.04	0.52	0.40
	(12.98)**	(0.31)	(22.39)**	(8.45)**	(3.73)**	(4.56)**	(2.62)**	
Furniture	1.63	-0.09	-4.47	3.25	-0.15	-1.63	0.01	0.48
	(16.75)**	(0.34)	(15.22)**	(5.72)**	(0.19)	(3.70)**	(0.03)	
Paper	1.32	0.52	-5.94	0.23	2.41	-0.71	0.09	0.41
	(14.90)**	(2.14)**	(14.13)**	(0.52)	(5.12)**	(2.29)**	(0.39)	
Petroleum, Coal	1.94	-0.40	-4.78	2.31	-0.48	-1.27	0.03	0.47
	(16.93)**	(1.51)	(13.41)**	(3.96)**	(0.56)	(3.03)**	(0.10)	

TABLE 2 (continued)

	Baseline						Patent Rights	
	GDP	**GDP per capita**	**Distance**	**Language**	**Colony**	**Tariff**	**GP**	**R2**
Industries								
Rubber, Plastics	1.70	-0.30	-3.77	1.37	1.23	-0.66	0.12	0.49
	(22.10)**	(1.39)	(10.57)**	(3.46)**	(2.31)**	(2.43)**	(0.56)	
Leather	1.48	-0.31	-3.94	2.65	1.07	-1.06	0.57	0.43
	(14.20)**	(1.14)	(12.53)**	(6.27)**	(1.35)	(3.18)**	(2.14)**	
Stone, Clay, Glass	1.59	-0.20	-4.02	2.14	1.25	-1.13	0.32	0.46
	(19.25)**	(0.90)	(10.11)**	(4.46)**	(2.35)**	(4.10)**	(1.27)	
Primary Metals	1.34	0.17	-4.53	2.18	-2.58	-0.12	-0.09	0.41
	(12.85)**	(0.73)	(11.73)**	(5.85)**	(3.75)**	(0.40)	(0.35)	
Chemicals	1.25	0.61	-4.16	-0.44	2.22	-1.04	-0.14	0.54
	(12.26)**	(2.39)**	(9.96)**	(1.12)	(5.58)**	(3.47)**	(0.61)	
of which: Pharmaceutical, Medicines	0.98	0.39	-2.62	1.06	0.95	-1.04	-0.29	0.59
	(24.31)**	(2.67)**	(13.50)**	(5.41)**	(3.73)**	(4.17)**	(1.73)*	
Fabricated Metals	1.05	0.54	-4.07	0.71	2.16	0.05	0.32	0.40
	(11.94)**	(2.21)**	(10.76)**	(1.95)*	(5.94)**	(0.18)	(1.54)	
Machinery	0.99	0.78	-2.93	0.60	1.77	-0.12	-0.16	0.37
	(9.78)**	(3.14)**	(8.73)**	(1.56)	(4.64)**	(0.41)	(0.65)	
Electronics	1.27	0.34	-3.89	0.63	1.30	-0.12	0.11	0.47
	(16.39)**	(1.33)	(12.08)**	(1.30)	(2.58)**	(0.40)	(0.38)	
Transportation Equipment	1.38	0.10	-3.96	2.14	1.24	-1.66	-0.02	0.31
	(22.26)**	(0.44)	(11.50)**	(4.35)**	(2.32)**	(4.33)**	(0.08)	
Instruments	1.28	0.75	-2.84	0.19	1.81	-1.02	-0.39	0.49
	(14.36)**	(2.64)**	(9.51)**	(0.38)	(3.63)**	(2.96)**	(1.29)	
Pool								
Patent Sensitive Manufacture	0.93	0.38	-3.13	0.03	1.31	-0.51	0.11	0.53
	(15.51)**	(2.13)**	(12.93)**	(0.06)	(3.51)**	(1.90)*	(0.64)	
Total Manufacture	0.95	-0.04	-1.44	0.75	0.22	-0.70	0.04	0.62
	(32.61)**	(0.42)	(5.77)**	(3.95)**	(1.10)	(3.01)**	(0.31)	

Notes: Sample size is 1197.

Robust t-statistics in parentheses.

Intercept and year controls not shown.

* Significant at 10 percent level.

** Significant at 5 percent level.

TABLE 3
GRAVITY EQUATIONS FOR IMPORTS

	Baseline						Patent Rights		
	GDP	GDP per capita	Distance	Language	Colony	Tariff	GP*DH	GP*DL	R2
Industries									
Food	1.10	-0.93	-4.32	3.79	-2.90	-0.13	1.24	0.90	0.30
	(16.36)**	(3.44)**	(9.25)**	(7.67)**	(5.18)**	(0.32)	(2.78)**	(3.51)**	
Beverages	1.31	-0.79	-5.67	2.06	1.90	-1.51	1.06	0.72	0.38
	(16.04)**	(2.20)**	(11.11)**	(4.39)**	(3.01)**	(3.16)**	(2.03)**	(2.33)**	
Tobacco	0.77	0.18	-5.49	2.68	-2.21	-0.92	2.20	0.04	0.30
	(9.00)**	(0.85)	(15.10)**	(5.65)**	(2.56)**	(2.71)**	(3.46)**	(0.14)	
Textiles	1.76	0.19	-3.71	1.98	1.17	-1.23	0.58	-0.34	0.49
	(20.30)**	(0.70)	(12.04)**	(3.90)**	(1.67)*	(3.86)**	(0.74)	(1.44)	
Apparel	1.66	-0.42	-4.20	2.88	1.11	-2.64	0.75	-0.57	0.49
	(15.26)**	(1.30)	(10.72)**	(5.90)**	(1.81)*	(6.94)**	(1.02)	(1.71)*	
Wood and Cork	0.87	-0.01	-5.97	4.92	-3.24	-1.09	1.39	0.32	0.41
	(13.45)**	(0.05)	(22.46)**	(8.26)**	(3.75)**	(4.72)**	(2.94)**	(1.59)	
Furniture	1.64	0.16	-4.61	3.27	-0.06	-1.70	1.00	-0.35	0.48
	(17.99)**	(0.57)	(16.48)**	(5.80)**	(0.08)	(3.80)**	(1.89)*	(1.04)	
Paper	1.36	0.82	-5.98	0.25	2.51	-0.76	0.74	-0.20	0.41
	(15.24)**	(2.86)**	(14.10)**	(0.57)	(5.36)**	(2.39)**	(1.40)	(0.73)	
Petroleum, Coal	1.94	-0.20	-5.00	2.33	-0.40	-1.35	1.29	-0.37	0.48
	(19.80)**	(0.71)	(14.82)**	(4.06)**	(0.48)	(3.27)**	(0.54)	(1.20)	
Rubber, Plastics	1.74	0.02	-3.76	1.39	1.34	-0.70	0.59	-0.13	0.50
	(25.38)**	(0.09)	(10.87)**	(3.52)**	(2.55)**	(2.53)**	(1.01)	(0.57)	
Leather	1.40	-0.67	-4.23	2.63	0.96	-1.09	1.30	0.54	0.44
	(13.23)**	(2.31)**	(13.55)**	(6.14)**	(1.18)	(3.48)**	(2.56)**	(1.98)*	
Stone, Clay, Glass	1.65	0.15	-3.93	2.15	1.37	-1.15	0.47	0.14	0.46
	(21.65)**	(0.66)	(10.58)**	(4.53)**	(2.61)**	(4.11)**	(0.84)	(0.52)	
Primary Metals	1.22	-0.29	-4.97	2.17	-2.73	-0.17	1.11	-0.21	0.42
	(12.57)**	(1.13)	(14.80)**	(6.28)**	(3.96)**	(0.57)	(2.22)**	(0.85)	
Chemicals	1.25	0.67	-4.22	-0.44	2.24	-1.07	0.24	-0.26	0.54
	(12.39)**	(2.21)**	(9.72)**	(1.11)	(5.59)**	(3.58)**	(0.60)	(0.98)	

TABLE 3 (continued)

	Baseline						Patent Rights		
	GDP	**GDP per capita**	**Distance**	**Language**	**Colony**	**Tariff**	**GP*DH**	**GP*DL**	**R2**
Industries									
of which: Pharmaceutical, Medicines	0.97	0.43	-2.73	1.06	0.96	-1.07	0.23	-0.44	0.59
	(25.89)**	(2.52)**	(13.46)**	(5.40)**	(3.73)**	(4.12)**	(0.89)	(2.24)**	
Fabricated Metals	1.02	0.43	-4.17	0.70	2.12	0.04	0.59	0.30	0.40
	(11.98)**	(1.53)	(10.58)**	(1.90)*	(5.83)**	(0.14)	(1.77)*	(1.17)	
Machinery	0.99	0.77	-2.91	0.60	1.77	-0.12	-0.28	-0.13	0.37
	(10.26)**	(2.62)**	(8.65)**	(1.56)	(4.67)**	(0.38)	(0.88)	(0.43)	
Electronics	1.21	0.13	-4.08	0.62	1.24	-0.14	0.64	0.06	0.47
	(16.20)**	(0.46)	(13.04)**	(1.28)	(2.44)**	(0.45)	(1.73)*	(0.19)	
Transportation Equipment	1.35	0.11	-4.21	2.15	1.24	-1.72	1.08	-0.31	0.31
	(20.98)**	(0.42)	(12.66)**	(4.30)**	(2.30)**	(4.41)**	(1.89)*	(0.95)	
Instruments	1.25	0.66	-2.99	0.19	1.78	-1.05	0.11	-0.48	0.49
	(14.22)**	(2.05)**	(9.76)**	(0.37)	(3.55)**	(2.91)**	(0.31)	(1.38)	
Pool									
Patent Sensitive Manufacture	0.92	0.33	-3.20	0.02	1.29	-0.51	0.32	0.08	0.53
	(16.09)**	(1.50)	(13.54)**	(0.06)	(3.46)**	(1.87)*	(1.26)	(0.40)	
Total Manufacture	0.96	0.03	-1.41	0.75	0.25	-0.70	0.00	0.01	0.62
	(34.02)**	(0.24)	(5.50)**	(3.99)**	(1.25)	(3.11)**	(0.00)	(0.10)	

Notes: DH: Dummy for high income per capita countries.

DL: Dummy for low income per capita countries.

Sample size is 1197.

Robust t-statistics in parentheses.

Intercept and year controls not shown.

* Significant at 10 percent level.

** Significant at 5 percent level.

TABLE 4
SIMULATED CHANGES IN IMPORTS BY SECTOR FROM STRENGHTENING IPRS IN LATIN AMERICA

(US$ millions of 1995)

Industries	High income p/c countries	Low income p/c countries	Total
Food	2.431	212	2.643
Beverages	33	4	37
Tobacco	1	0	1
Textiles	0	0	0
Apparel	0	-1	-1
Wood and Cork	0	0	0
Furniture	6	0	6
Paper	0	0	0
Petroleum, Coal	0	0	0
Rubber, Plastics	0	0	0
Leather	1	0	1
Stone, Clay, Glass	0	0	0
Primary Metals	0	0	0
Chemicals	0	0	0
Pharmaceutical, Medicines	0	0	0
Fabricated Metals	580	0	580
Machinery	0	0	0
Electronics	1.237	0	1.237
Transportation Equipment	794	0	794
Instruments	0	0	0
Total (dollar value)	5.083	215	5.297
Total (percentage of Imports)	4,42%	0,57%	3,46%
Total (percentage of GDP)	0,36%	0,09%	0,32%

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