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Globalization and income inequality: Implications for intellectual property rights

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Abstract

This paper examines the impact of globalization on income inequality for a cross-section of 62 developing countries over a period of 17 years (1985–2001). The results of the study indicate that globalization explains only 15% of the variance in income inequality. More specifically, the results show that (1) strengthening intellectual property rights and openness are positively correlated with income inequality; (2) foreign direct investment is negative and significantly correlated with income inequality but this is not robust to different model specifications; (3) the institutional infrastructure is negatively correlated with income inequality. The study's findings and the review of the literature suggest that globalization has both costs and benefits and that the opportunity for economic gains can be best realized within an environment that supports and promotes sound and credible government institutions, education and technological development.

JEL classification: FO2; I30; K19

Keywords: Globalization; Income inequality; Intellectual property rights; Developing countries

1. Introduction

The past two decades can be described as the era of globalization. Although there is no consensus on the definition of globalization, a common term that is synonymously with globalization is integration, in terms of people, capital, ideas, technology, and services (Houck, 2005). Empirically, globalization translates into greater mobility of the factors of production (capital and labor) and greater world integration through increased trade, foreign direct investment (FDI), and enforcement of intellectual property rights [IPR] (Milanovic, 2005; Wade, 2001). Though many studies

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have been done to examine the effects of trade and FDI on both economic growth and income inequality, not much has been on the effect of IPR. In the era of globalization, almost everyone is a user and a potential creator of intellectual property and therefore its protection, which is called intellectual property rights, should be of significance to policymakers.

The purpose of this paper is to examine the impact of globalization especially the harmonization of intellectual property rights (IPR) on income inequality. This is important because in the past decade the protection of IPR has moved from an arcane area of legal analysis to the forefront of global economic policymaking (Maskus, 2000a). This in no small measure has been motivated by the successful completion of the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) in 1994. The TRIPS agreement set strong minimum standards in each of the areas commonly associated with IPRs, including patents, copyrights, trademarks, and trade secrets (Maskus, 2000b). To the knowledge of the authors, this is the first paper to empirically examine the impact of IPR on income inequality in developing countries. Further, we also control for regional groups to identify any differential effects of globalization (with a particular reference to IPR) in developing countries.

The rest of the paper is organized as follows: Section 2 offers a brief review of the literature on globalization and income inequality. Section 3 describes the data and methodology used and Section 4 presents and analyzes the results. Section 5 presents the implications, directions for future research, and offers concluding remarks.

2. Literature review

Many explanations have been given as to how global integration should affect the distribution of income. For example, the neoclassical growth theory and the neoliberal paradigm, which dominated public policy on issues of national development in the 1990s, suggest that integration in to the world economy through trade and FDI should lead to reduction in the distribution of income across nations (Heshmati, 2005; Wade, 2001). Thus, in the spirit of law of even development or the modernization perspective, countries are more likely to gain from integration into international markets relative to less integration. The modernization perspective suggests that continued growth expand the middle class and increases employment and the savings rates among the poor, leading to reduction in income inequality (Beer, 1999). The implication is that developing economies wishing to catch up with the standards of living of the developed countries should open up their markets by lowering tariffs, removing trade restrictions, granting privileges to FDI and enforcing IPR. As noted by Maskus (2000a) effective IPR regime has an effect not only on the incentive for new knowledge creation and its dissemination, but even more important, the market structure, prices, and distributional equity. Also, the CIPR (2002) report noted that in the poorest regions of the world, strengthening IPR could help to stimulate invention and new technologies, thereby leading to an increase in agricultural or industrial production in less developed countries that could have positive effect on the distribution of income. A World Intellectual Property Organization [WIPO] (2003) report noted that intangible assets – such as knowledge, creativity and inventiveness are rapidly replacing traditional and tangible assets – such as land labour and capital – as the driving forces of economic development.

Contrary to the idea of convergence, anti-globalization advocates have long claimed that global integration is a cause of divergence rather than convergence of incomes between the world's economies. They suggest that the traditional causes of income inequality (e.g., land concentration, unequal access to education, and urban–rural gap) are unlikely to explain the rise the increase in income inequality in the past two decades. Such an increase, they argue is more likely to be