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| **Folder Title:** | 675-39P Intellectual Property Rights Protection and Technology Transfer Through Foreign Direct Investment - Correspondence |
| **Folder ID:** | 1314929 |
| **Series:** | Research Project Files Maintained in the Office of the Vice President, Development Policy (VPD) and the Office of the Vice President, Economics and Research (VPERS) |
| **Dates:** | 07/21/1989 – 08/02/1989 |
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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

**DATE:** August 2, 1989

**TO:** Mr. Guy Pfeffermann, CEIED

**FROM:** Dennis de Tray, Deputy Chairman, Research Committee

**EXTENSION:** 33480

**SUBJECT:** Research Preparation Grant: "Intellectual Property Rights Protection and Technology Transfer Through Foreign Direct Investment"

Your request of $5,000 from the Research Support Budget for preparation of the above titled research has been approved. The following identification code and financial authorization are issued for the project:

| | | |
|---|---|---|
| i) | Identification Code | 675-39 |
| ii) | FY90 Authorization | $5,000 |
| iii) | Total Authorization | $5,000 |

Please use the identification code in all financial documents and correspondence related to the project, including letters of appointment to consultants.

Please note that according to the rules contained in paragraph 7 of Operational Directive 16.00, acceptance of research preparation funds constitutes an agreement on the part of the sponsoring department to submit a research proposal to the Research Committee within six months. This research preparation project thus will be closed February 28, 1990.

cc: Messrs./Mmes.: D. Weigel, J. Bergsman, J. Hamid, CEIED
N. Barry, A. Mody, C. Dahlman, IENIN
E. Rodriguez, M. Tonson, PBD
J. Fernandez, K. Hannemann, CTR
S. Thavamoney, OPNMI
S. Shah, V. Mataac, RAD
Research Committee Members

DdT

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

675-39

Approved
DT
8.1.

DATE: July 21, 1989

TO: Dennis de Tray
FROM: Guy Pfeffermann

SUBJECT: Request for Preparation Grant

SS
need decision memo
8/1

1. I wish to make a request for a $ 5,000 research proposal preparation grant. The proposal would be drafted by Professor Edwin Mansfield (University of Pennsylvania) with the assistance of Professor Sam Wagner (Franklin and Marshall College).

2. The thrust of the proposal is spelled-out in the attached note: "Intellectual Property Rights Protection and Technology Transfer through Foreign Direct Investment".

3. The idea is to proceed in two phases. Phase I would include interviews and some statistical analyses, but would be confined to a limited number of countries. Unless the results of Phase I are so robust that we can dispense with further research, Phase II would involve larger samples and more statistical and econometric analyses.

4. Policy guidance to developing countries would be the principal objective of the research.

5. The effort would be sponsored by my department (and supported by Nancy Berry's division). My department and the Foreign Investment Advisory Services (FIAS) would supervise the project.

6. A companion request may be sent soon for a project dealing with the relationship between degree of intellectual rights protection and the diffusion of technology. Ideally the two projects should focus on the same countries/sub-sectors. The diffusion project would be undertaken by Bob Evenson.

cc: Weigel, Bergsman, Hamid o/r, Barry, Mody, Dahlman

# Intellectual Property Rights Protection and Technology Transfer Through Foreign Direct Investment

Edwin Mansfield
University of Pennsylvania

This is a request for a research preparation grant of $5,000. In his letter of June 1 to me, Guy Pfefferman indicated that the World Bank is interested in supporting research concerning intellectual property rights protection and the transfer of technology through foreign direct investment. I am interested in carrying out such research, but because so little work has been done on this topic (which is important from both a policy and a purely analytical point of view), it will take some time and exploratory efforts to determine how best to proceed. The purpose of the requested grant is to support the work required to design an effective research project and to formulate the project proposal.

As is well known, foreign direct investment is an important means of transferring technology to less developed countries. From both policy and analytical perspectives, it is important to obtain a better understanding of the effect, if any, that a less developed country's system of intellectual property rights protection has on the transfer of technology to that country through foreign direct investment. By intellectual property rights protection, we mean the characteristics of the patent system, the legal status of copyrights, trademarks, and trade secrets, and the enforcement of the relevant laws.

According to some observers, relatively weak intellectual property rights protection in a less developed country may reduce the likelihood that multinational firms will invest there. Moreover, even if they do invest there, they may be willing (because of weak intellectual

property rights protection) to invest only in wholly-owned subsidiaries (not joint ventures with local partners) or to transfer only older or less valuable technologies. While these hypotheses may be true, there is little or no evidence to support (or deny) them.

The purpose of the proposed research is to shed new light on the extent to which a country's system of intellectual property rights protection influences the nature and amount of technology transferred to this country via direct foreign investment. Clearly, the answer may vary, depending on the industry in question and on the characteristics of the less developed country. Also, the answer may vary depending on the nature of the technology. For example, product technology may be treated differently from process technology.

According to the IFC, "Preliminary thinking on such research suggests that the methodology might rely heavily on interviews with corporate officials, government officials and others . . . It might focus on perhaps three or four different industries, and contrast the situation in three to five middle-income developing countries that exhibit a wide range of IPR protection (e.g., from Thailand to Chile, with intermediate cases such as Argentina, Brazil, Korea, or Malaysia)." [1]

We agree that interviews of this sort would be valuable and useful. In addition, we would like to explore the possibility of obtaining actual data concerning the age of various technologies transferred by multinational firms to particular less developed countries. In previous studies, we have been able (apparently for the first time) to get such data from a random sample of multinational firms.[2] Also, data might be obtained concerning the extent of various firms' investments in a variety of less developed countries. Using these data, we may be able to carry out statistical

analyses to test whether the extent of firms' investments and the age of the technology they transfer are related to the strength of intellectual property rights protection, as measured by various rough indicators (that will be specified in the proposal).

In carrying out the proposed work, Samuel Wagner, the Clair R. McCollough Professor of Business Administration at Franklin and Marshall College, will be involved in interviewing and processing the data. He has collaborated with me on work of this sort for about 20 years, and is very experienced and able. However, this is not a situation where most of the work will be done by others. My current feeling is that I shall be directly involved in a large proportion of the data gathering and analysis. To do a good job in work of this sort, it is important for the principal investigator to take part in all phases of the project.

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[1] IFC, "Intellectual Property Rights Protection and the Transfer of Technology Through Foreign Investment," unpublished, 1989.

[2] Edwin Mansfield and Anthony Romeo, "Technology Transfer to Overseas Subsidiaries by U.S.-Based Firms," Quarterly Journal of Economics, December 1980; and Edwin Mansfield et al, Technology Transfer, Productivity, and Economic Policy, New York: W.W. Norton, 1982.

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