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Ignat Stepanok¹

Abstract

In this paper I build a North-South model of international trade, economic growth and search-frictional unemployment in the North. Growth is driven by a process of creative destruction in the North followed by imitation in the South. I study the effects of intellectual property rights protection and trade liberalization on unemployment and welfare in the North. Intellectual property rights protection decreases unemployment and increases welfare. Trade liberalization increases welfare but has an ambiguous effect on unemployment. It decreases unemployment if workers in the North have a high outside option and increases it if their outside option is low. I provide empirical evidence in support of the last result using data for 20 OECD countries.

Keywords: Creative destruction, search unemployment, trade liberalization, intellectual property rights, North-South trade.

JEL: F12, F16, F43, J63, O31, O34.

1. Introduction

In this paper I develop a North-South model in which I study the response of unemployment in the North to trade liberalization and changes in intellectual property (IP) rights protection. While the effect of stronger IP protection is straightforward and leads to lower unemployment, the same cannot be said about lower trade barriers. I show that the outside option of workers in the North matters for the effect of trade liberalization on unemployment. A high outside option of workers means that more trade decreases unemployment in the North, while with a low outside option unemployment increases.

There is a lively debate within the North-South trade and IP rights literature on how trade liberalization and imitation affect innovation, growth and ultimately welfare. The first general equilibrium model that explores those issues is developed in Helpman (1993). Helpman shows that imitation and innovation are positively correlated, meaning that stronger IP rights embodied by a lower imitation rate in the South translate into lower innovation and a lower growth rate. In the long run stronger IP rights protection unambiguously makes the Southern consumer worse off. The Northern consumer is also made worse off if the imitation rate is low to begin with, but better

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