The Role of Trademarks for Economic Development

Dr Matthias Bauer
European Centre for International Political Economy (ECIPE), Brussels
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Key Take Aways

1) How much do trademarks contribute to economic activity?
   • We do not know exactly
   • Difficult to measure, but the contribution is significant – depending on applied estimation methodology

2) Are trademarks relevant for economic output and economic development?
   • YES, trademarks spur all types of economic activities in goods and services sectors
   • Trademarks frequently constitute the starting point of all types of economic activities
   • Trademark-induced incentives are often at the heart of diverse international value chains and foreign direct investment (FDI) decisions
What is a Trademark/Brand (for)?

*The legalistic view:*

- Intellectual asset protected by intellectual property rights
- Allows for exclusive use of ‘signs’
- To protect *both* producers and consumers from deceptive competition (free-riding and opportunistic behaviour)
What is a Trademark/Brand (for)?

The business perspective – with macro-economic implications:

• A recognizable sign, design, or expression, which identifies products or services of a particular source (individuals, businesses) from those of others – differentiation

• Long-term intangible asset that depends on an association made by consumer – signalling and trust

• A means to create long-term demand, i.e., consumer loyalty – demand side effect

• Allow for dissemination of original and derivative (incl. innovative) products and services – supply side and multiplier effects
The Economics Perspective

• *Trademarks and other IPRs* are of interest to economists because they may or may not facilitate commerce, productivity growth and economic (activity) development

• Induce supply and demand side effects

• Trademarks have *three major economic merits*:
  
  • *Recognition*: trademarks solve information asymmetries by conveying product- or service-specific information to consumers
  
  • *Rewards*: exclusive legal protection of intellectual property provide individuals and organisations with incentives to undertake creative and innovative activities
  
  • Explicitly allow for *competition* of the ‘same’ products and services
Trademarks are Literally Everywhere

• Trademarks convey information
• Allow for ‘long-distance’ trade and, therefore, specification and the utilisation of the international division of labour, i.e., globalisation
• Think of Akerlof’s ‘Market for Lemons’ – used cars, opportunistic behavior, severe distrust, no exchange, no economic activity
• Trademarks create ‘quality awareness’ and trust
• Trademarks create markets – economic activity, employment, income
Intensity of Trademarks in EU Production

In the EU, trademarks are actively used in most industries (277 out of 321 analysed by the EPO).

# Direct Contribution of Trademark-intensive Industries to EU Employment

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Employment</th>
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</thead>
<tbody>
<tr>
<td>Trademark-intensive</td>
<td>45,508,046</td>
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<tr>
<td>Design-intensive</td>
<td>26,657,617</td>
</tr>
<tr>
<td>Patent-intensive</td>
<td>22,446,133</td>
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<tr>
<td>Copyright-intensive</td>
<td>7,049,405</td>
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<tr>
<td>GI-intensive</td>
<td>374,345</td>
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</tbody>
</table>

Direct Contribution of Trademark-intensive Industries to EU Employment

Direct & Indirect Contribution of Trademark-intensive Industries to EU Employment


Trademark-intensive: 63,108,443 employees, contributing 28.9% to total EU employment.
Design-intensive: 38,799,434 employees, contributing 17.8%.
Patent-intensive: 35,184,370 employees, contributing 16.1%.
Copyright-intensive: 9,380,795 employees, contributing 4.3%.

Chart showing absolute and relative contributions of different industries to EU employment.
Contribution of Trademark-intensive Industries to EU Economic Activity (GDP)

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Contribution</th>
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<tr>
<td>Trademark-intensive</td>
<td>33.9%</td>
</tr>
<tr>
<td>Design-intensive</td>
<td>12.8%</td>
</tr>
<tr>
<td>Patent-intensive</td>
<td>13.9%</td>
</tr>
<tr>
<td>Copyright-intensive</td>
<td>4.2%</td>
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<tr>
<td>GI-intensive</td>
<td>0.1%</td>
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Trademarks Are Everywhere

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industry Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Leasing of intellectual property and similar products, except copyrighted works</td>
</tr>
<tr>
<td>2</td>
<td>Manufacture of basic pharmaceutical products</td>
</tr>
<tr>
<td>3</td>
<td>Manufacture of wine from grape</td>
</tr>
<tr>
<td>4</td>
<td>Research and experimental development on biotechnology</td>
</tr>
<tr>
<td>5</td>
<td>Manufacture of perfumes and toilet preparations</td>
</tr>
<tr>
<td>6</td>
<td>Manufacture of irradiation, electromedical and electrotherapeutic equipment</td>
</tr>
<tr>
<td>7</td>
<td>Manufacture of other transport equipment n.e.c.</td>
</tr>
<tr>
<td>8</td>
<td>Manufacture of games and toys</td>
</tr>
<tr>
<td>9</td>
<td>Manufacture of sports goods</td>
</tr>
<tr>
<td>10</td>
<td>Other telecommunications activities</td>
</tr>
</tbody>
</table>

Trademark-induced Incentives & Sources of Value-added

Investment in Product and Brand Reputation based on exclusive right

Maintenance of Product and Brand Reputation

Employment and income generation in R&D, product development, technology development, marketing and advertising; inhouse and external agencies

Creation of Value-added in Heavily Diverse Downstream Sectors

Employment and income generation in print media, commercial televisions, (sports) event management, entertainment services
Trademark-induced Incentives & Sources of Value-added

**NO Investment in Product and Brand Reputation based on exclusive right**

**NO Maintenance of Product and Brand Reputation**

LESS or NO employment and income generation in R&D, product development, technology development, marketing and advertising; inhouse and external agencies.

**NO Creation of Value-added in Heavily Diverse Downstream Sectors**

LESS or NO employment and income generation in print media, commercial televisions, (sports) event management, entertainment services.
The Economic and Social Multiplier Effect

• The economic value of Google is not generated in Silicon Valley
• The economic value of Coca Cola is not generated in Atlanta
• Think of Uber & AirBnB: trust, market transformation and local employment creation
• Think of FDI and the transfer of knowledge development of skills
• Trademarks facilitate commerce, international trade and, thus, social interaction (B2B, B2C, C2C)
• The facilitation of commerce facilitates peace…
Critique: Impact on Market Structure

- Common critique: trademarks erect barriers of entry of new competitors due to ‘brand monopolies’
- That is true: for businesses, the core function of a trademark is to create consumer loyalty, or to lock-in consumers
- But: all markets are contestable if sound regulatory frameworks prevent market concentration and market abuse practices
- The constitutional principle of a market economy is an effectively enforced competition law
- The erosion of trademarks would erode economic incentives in the long-run – across all industries
Conclusion

• Legal protection and legal enforcement of exclusive use of trademarks essential to provide incentives for all types of economic activities in goods and services sectors
• Trademarks create trust protect consumers from ‘deceptive’ competition
• Trademarks create markets and entail beneficial multiplier effects
• Trademarks are of vital importance for modern ideas-economies
• Trademarks facilitate social interaction and contribute to pluralist societies