

Innovation and Intellectual Property Rights in the Age of Competitiveness: The Case of India

An Institute for Competitiveness Roundtable
in Partnership with Property Rights Alliance (PRA)

7th February 2020



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Introduction

Innovation, economic development and prosperity have acquired a rich history of literature over the last few decades. Innovation plays an indispensable role in driving the growth and competitiveness of nations. Incorporating this notion of the importance of innovation has brought prosperity to the Western economies in the past and is contributing to the rise of China as an economic superpower. Recently, India has proactively pushed for innovation-driven economic growth with the aim to gain a competitive edge over other economies. Thus, to understand and add to the discourse of innovation-led growth in the age of competitiveness, a roundtable was organized by the Institute for Competitiveness in partnership with Property Rights Alliance (PRA) on February 7, 2020.

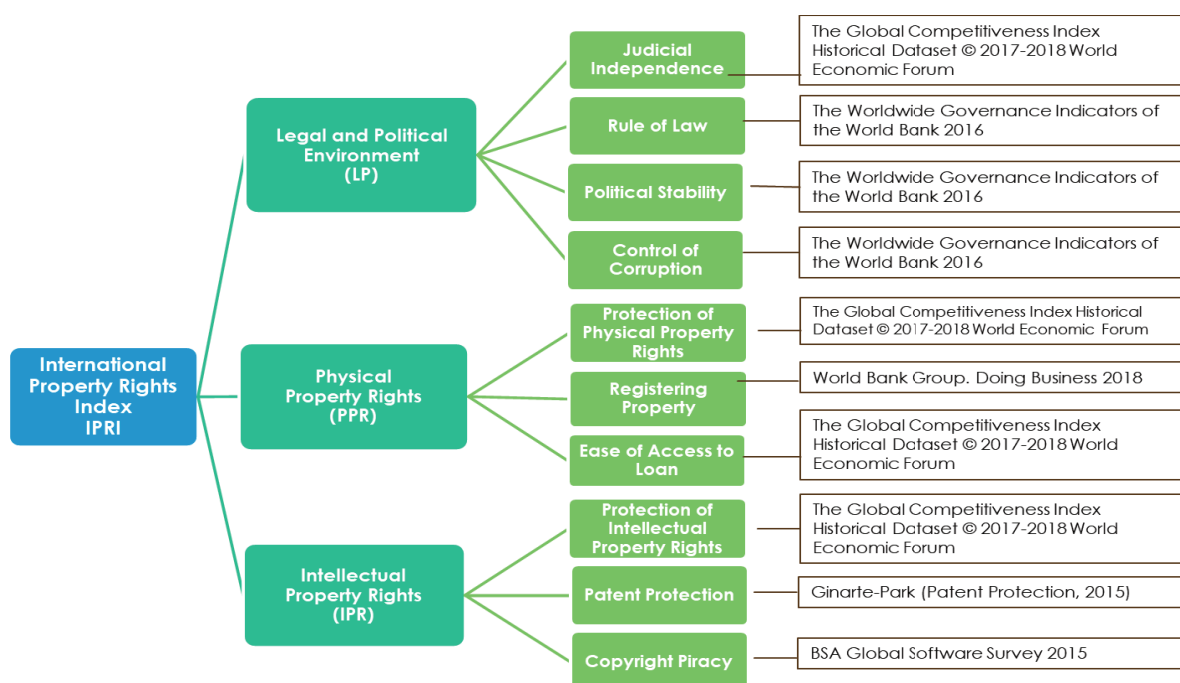
The roundtable aimed to gather the best minds hailing from the government, academia, industry, and the civil society to discuss India's innovation ecosystem and its IP regime, discuss the challenges faced in industry-academia interaction, debate the most suitable solutions for improving India's innovative capacity.

International Property Rights Index 2019

The roundtable commenced with a presentation on the International Property Rights Index (IPRI) 2019, authored by Property Rights Alliance (PRA). Property rights are basic human rights as prescribed by the Universal Declaration of Human Rights (Article 17 & 27) and foster economic growth and social development. Economists such as Friedrich Hayek & Ronald Coase have advocated for property rights in the past and deduced that it promotes innovation and productivity. And finally, property rights have been the most effective mechanism to secure civil rights and civil liberties.

IPRI intends to capture the state of Property Rights around the world. The index includes a range of crucial indicators to assess the environment that guarantees the property rights of a nation, which in turn drives the innovation and productivity.

The index performances show that India has progressed in the last few years and currently is placed 55th out of 129 countries. However, there are indicators listed above (e.g. Registering Property) where India needs to cover the gap and further strengthen in order to empower its citizens' property rights.



(Source: Property Rights Alliance)

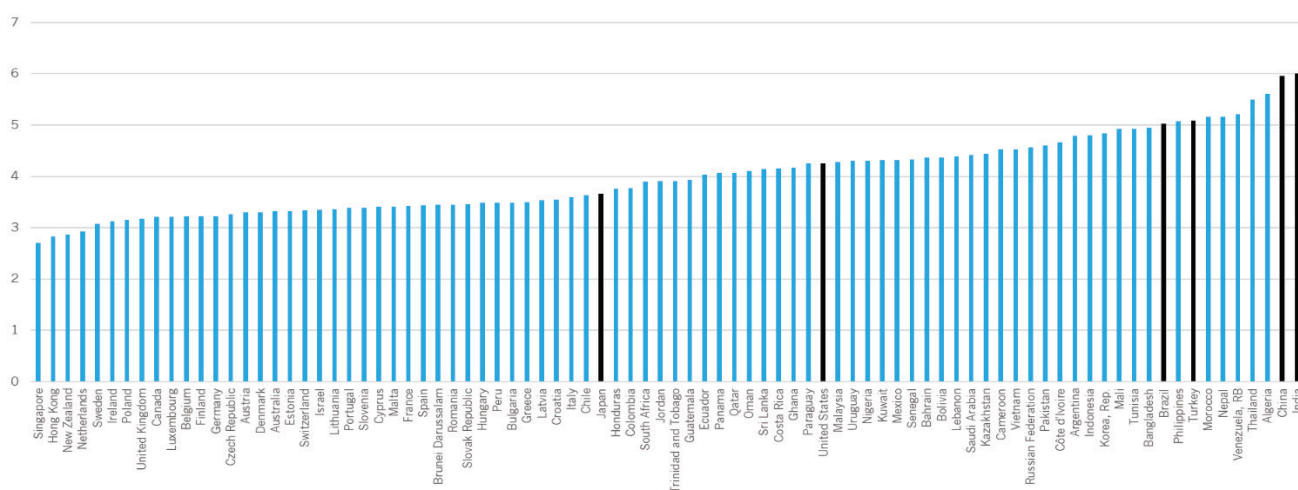
International Trade Barrier Index 2019

International Trade Barrier Index (TBI) is another index released by PRA to evaluate trade restrictions in 86 nations that represent about 83 per cent of the global population. Trade, here is defined as an exchange of ideas, social customs, goods and services. This encourages efficient use of resources and rewards innovations deriving from such trades that add value to the economy. India, unlike the previous index, does not fare well and has been placed in the last position. The index finds out that India and China are the greatest trade restricting nations that deploy disproportionate tariffs, services restrictions, and non-tariff barriers.

Tighter trade regulations deter foreign players to enter the domestic market. The above index highlights that India's services restrictions are the highest in the world due to mainly restricting foreign professionals to dissuade from working and opening businesses of their own in the country.

Philip Thompson, Analyst for Intellectual Property and International Trade, PRA, claimed that India could improve on its ranking for both the indices by ensuring that:

- ◆ There is stronger enforcement of established rules and laws: India is an average performer according to the IPRI and thus constant revision and better monitoring of existing laws are a must for India to advance in the said index. Mr Thompson also pointed out that Bollywood, one of the highest-grossing sectors of the Indian economy suffers due to poor monitoring and enforcement of anti-piracy laws.
- ◆ Prevent Knowledge Drain: The above problem leads to the emigration of well-trained professionals from India to "better pastures" where they could find new opportunities and enjoy guaranteed protection of their respective intellectual property.
- ◆ A case study prepared by the Institute for Competitiveness for IPRI found that patent-intensive firms/industries are generally more productive and create better spillover effects. Specifically, the patent-intensive firms in India pay a wage premium of 72%, employ 26% of all jobs, and produce 36% of Gross Value Added. Thus boosting innovation is the key for a better overall economic performance.



(Source: Property Rights Alliance)

Innovation and Competitiveness: A Global Perspective

Innovation in previous discourse and literature has been identified as:

- ◆ Creation of new forms of products and techniques that drive economic and social development.
- ◆ Performing existing tasks in an efficient manner which raises overall productivity. For instance, Fordism revolutionized the process of automobile manufacturing.

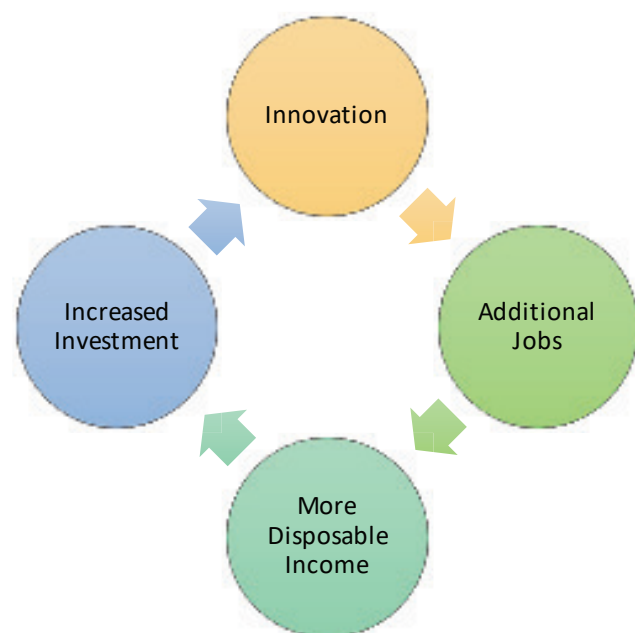
Thus, an Indian discourse, must not be restricted to the first aspect of innovation and competitiveness. India can emphasize on the second aspect of innovation and reform the existing production techniques to raise the productivity of the labour and capital which will further push the output levels. As pointed out by **Chirag Yadav**, Senior Researcher, Institute for Competitiveness, all western industrial nations did not undertake the path towards attaining competitiveness by releasing new inventions into the market. Instead, their emphasis lied on reforming the existing production techniques and capacities. A major step taken by the western regimes to restructure production processes was to ensure that human capital is skilled according to global needs. This could begin by inculcating contemporary vocational knowledge into the primary and secondary levels of education. This helps the state in creating new batches of the well educated and skilled workforce (as witnessed in China) and also saves the budget spent on reskilling.

Pradeep Mehta Secretary General, CUTS; explained that China has gone beyond the above stages of innovation and production. The Chinese economy has reformed to ensure that cost-competitive forms of production reflect into the valuation of final goods.

The Chinese government has ensured that such production processes are WTO compliant, thus making them the most competitive force in the global economy.

Another early development that guided China and other large economies towards gaining competitive edge was the presence of local industrial clusters. Presence of clusters ease the innovation process and have large spillover and multiplier effects.

Manisha Kapoor, Senior Researcher, Institute for Competitiveness, highlighted that prior studies have highlighted the direct positive relation between cluster strength of an economy and its rate of innovation. While clusters may not be the only driving force for innovation and development, one of its multiplier effects includes generation of industrial employment. As noted by **Shubhendu Parth**, the establishment of large production units such as clusters will guide an economy into a virtuous cycle of innovation and economic growth:



For such innovation cycles to function in any economy it is pertinent that the state identifies and selects those industries where it could potentially gain a competitive edge. According to **Vivan Sharan** Partner, Koan Advisory; this could commence by focussing on those industries which incur minimal distribution costs (for instance Audio-Visual Industry). This not only spurs local economic growth but also helps in data-driven policymaking. Such industries help in better capturing of existing data and thus accurately guides the state with future policies.

Current Challenges pertaining to Innovation in the Indian Economy

Before discussing possible solutions and execution of successful policies, the panellists felt that it is crucial to address the underlying challenges pertaining to innovation and competitiveness in India. **Ramesh Abhishek**, Former Secretary to Govt of India, DPIIT was present in the panel and being a former Secretary to Govt of India, was best placed to deliver some valuable insights. His observations showed the **existing institutional bottlenecks** that often hinder the innovative drive of the Indian economy:

- ◆ Inadequate infrastructure and limited patent examinations often adversely affect the public institutions' performance as promoters of innovation and competitiveness.
- ◆ Other governing bodies such as the judiciary, customs and the police still do not possess the necessary knowledge to assess and adjudicate issues pertaining to innovation and competitiveness.

While these issues present institutional limitations, the Government has always reiterated that they are open to new ideas and opinions that could potentially spur innovation in the economy. Such flexibility has shown positive results as the Government has taken rapid actions to streamline the application processes especially as noted for trademarks. India's progress in those regards has made it one of the fastest trademarking regime. And with a separate window dedicated to startups and other new investors, the Government has eased the process of providing legitimacy to new innovative concepts. **Rameesh Kailsam**, CEO, IndiaTech.org; called this approach as a positive change and also recommended that along with inter-department coordination; the IP regime

must also work on strengthening the Centre-state relations.

India now needs to emphasize on **scaling and improving the enabling factors** to address the above problems. According to **Ajit Pai**, Consultant to Vice Chairman, NITI Aayog; policymakers must have to reform the economic environment in such a way that India is able to upscale from its current position and allow enabling factors to successfully foster innovative tendencies. He recommended that India needs to invest heavily in research and investment as there is a positive correlation between R&D investment and scaling. India's current scale is not comparable to western economies and other major economies such as China. According to **Yatish Rajawat**, CEO of Center for Civil Society; western economies and China have internalized the entire production value chain which ultimately reflects on the cost-competitiveness of the final goods. Cost-competitiveness also prompts increased consumption and investment and according to **Ratna Devi**, CEO and Co-founder, Dakshama Health and Education, such levels of consumption is lacking in the domestic economy. Therefore, India needs to learn from such top producers of the world who share the same enabling environment which includes:

- ◆ WTO compliant norms for innovation and competitiveness.
- ◆ Constant revision of production processes to attain a competitive edge.

Finally, a major problem that persists in the national innovation domain is the **lack of substantial industry-academia linkages**. Professor **Amit Shovan Ray**, Jawaharlal Nehru University, presented the example of Bayh-Dole and how such a piece of legislation has strengthened the industry-academia linkages in the USA. A major problem why India struggles to establish such strong linkage is due to the common perception attached to the universities in the country. Universities are ambidextrous and thus perform multiple key roles to spur innovation and promote development through knowledge creation, yet Indian perspective towards universities is restricted to learning and teaching. Indian policymakers must incentivize knowledge creation which would boost the research-based capacities of the Indian universities and thus create extensions for knowledge transfers to the industries.

Necessary Steps and Measures to Boost Innovation

After identifying the existing problems that curb the innovative tendencies in India, the panellists agreed upon possible solutions that would guide the policymakers in the future. All these recommendations/solutions are Indian-centric and are flexible enough to accommodate the diversity in the economic landscape of the country.

Unnat Pandit, Program Director, Atal Innovation Mission; claimed that even minor positive changes in the existing policies can bring drastic improvements. The erstwhile application processes have been simplified to make it more user-friendly. Streamlining the entire process and additional benefits such as single-window clearance are some of the few major improvements in the current system. As a result, there have been significant application filings jump since 2016, which coincides with the implementation of the National IPR Policy. Further, it was recommended by other panellists that there is an urgent need for quicker dispute resolution mechanism in the IP Appellate Board. This would enhance the quality of the overall functioning of the IP regime in India. Similarly, the penetration of IPR as a discourse and

awareness tool has reached about 90 per cent of the country, thanks to the success of programmes such as Atal Innovation Mission and Atal Tinkering Labs. This will promote competitiveness at a micro-level and thus may help potential policies that would rely on a bottom-up approach.

Other key recommendations included strategic investment and foreign partnership which will accept the domestic innovations and thus increase its existing scale. **Ishtiyaque Ahmed** Adviser, NITI Aayog advocated for the signing of strategic Foreign Trade Agreements with other developing blocs/regions. Similarly, **Manish Diwan**, Head – Strategic Partnership & Entrepreneurship Development, BIRAC; suggested inclusion of foreign production units into domestic clusters. This would raise the economic spillovers and also bring recognition to the production processes of the industrial clusters.

To analyse the competitiveness and growth of innovation at domestic levels, Professor **Nilanjan Banik**, Bennett University; suggested that additional scrutiny is required for the number of patents that are being filed. While it is encouraging that the number of patent filings has gone up; however the value of such patents must also be closely analysed. This would present the quality of innovation generated within the country. Similarly, as the number of startups is rising rapidly, future policies must emphasize on the impact such units bring to the overall economy. **Ashish Bharadwaj** Dean, Jindal School of Banking and Finance rightly pointed out that such startups only deliver to a small portion of the population. Thus, new policies must bring in provisions that would help in better dissemination of knowledge beyond tier-1 and tier-2 cities.

Solutions and the Way Forward

Finally, it was agreed that innovation and competitiveness being complex issues, would require solutions from a long-term perspective. Improving the IP regime's capacities has to be the starting point which would empower the monitoring authorities. This must be followed up by the dual-objective of enhancing the scaling of local production and strengthening of industry-academia linkages. This will bolster domestic competitiveness and would prepare the local firms for international competition.

Based on this notion, the panellists concluded that these are the best possible recommendations that could boost the innovation levels of the Indian economy thus driving it towards achieving competitiveness:

- Enhance the capacities of the existing IP regime. From inculcating the IP discourse to all forms of administrative entities to the expansion of the infrastructure to address the growing application numbers.
- Reforms and appropriate modifications to the monitoring and evaluating bodies such as IP Appellate Board, for quicker resolutions and efficient assessment of the applications.
- Inferences from the indices suggest that even without a major revamp, simple and effective implementation of existing rules and laws can easily drive the Indian innovation and thus improve its position from a global context.
- Indian policymakers must not restrict the innovation discourse to just rolling out of new inventions. Innovations also include efficient reformation of existing manufacturing processes.
- In order to attain competitiveness, concentrated efforts must be made on selected industries with minimal distribution costs. This would promote cost-competitive production and thus improve both export and local consumption levels.
- The above idea could be implemented through a variety of public policy choices including R&D tax incentives (patent boxes under the Finance Bill 2016); strategic opening to international competition and foreign investment; trade adjustment assistance where costs are significant; or through limited financing.
- While an increasing number of application filings is encouraging, the quality of such filings must be scrutinized and therefore, future policies must nudge the firms to go for value-laden patents.
- Value of archaic laws such as trade secrets act must be reconsidered as they lay out the barriers for local producers hence curbing on their innovative tendencies.
- Industry-academia is a must for guiding innovation in the economy and first, the role of universities must not be restricted to learning platforms. They must be incentivized to expand their research capacities which would amplify the rate of knowledge creation.
- India, as an economy, must learn from global economies, especially from western nations and China in order to raise its own scaling and further improve the enabling environment. Upscaling spurs innovation and enabling environment adds to the competitiveness. Thus, India must focus on these two aspects while adhering to the WTO norms.

Participants

1. **Ramesh Abhishek**; Former Secretary to Govt of India, DPIIT
2. **Ishtiyaque Ahmed**; Adviser, NITI Aayog
3. **Nilanjan Banik**; Professor, Bennett University
4. **Ashish Bhardwaj**; Dean, Jindal School of Banking and Finance
5. **Ratna Devi**; CEO & Co-founder, DakshamA Health and Education
6. **Manish Diwan**; Head – Strategic Partnership & Entrepreneurship Development, BIRAC
7. **Subhasis Gangopdhayay**; Managing Trustee, India Development Foundation
8. **Rameesh Kailasam**; CEO, IndiaTech.org
9. **Amit Kapoor**, Chairman, Institute for Competitiveness
10. **Manisha Kapoor**; Senior Researcher, Institute for Competitiveness
11. **Pradeep S. Mehta**; Secretary General, CUTS
12. **Ajit Pai**; Consultant to Vice Chairman, NITI Aayog
13. **Unnat Pandit**; Program Director, Atal Innovation Mission
14. **Shubhendu Parth**
15. **Yatish Rajawat**; CEO, Centre for Civil Society
16. **Vivan Sharan**; Partner, Koan Advisory
17. **Amit Shovan Ray**; Professor of Economics, Jawaharlal Nehru University
18. **Philip Thompson**; Policy Analyst for Intellectual Property and International Trade, Property Rights Alliance
19. **Chirag Yadav**; Senior Researcher, Institute for Competitiveness

Observers

1. **Nitin Agarwal**; Convenor, Natoinal Asspciation of School Professionals
2. **Jayana Bedi**; Research Associate, Center for Civil Society
3. **Suprerana Chakraborty** ; Researcher, Institute for Competitiveness
4. **Annirudh Datta**; Researcher, Institute for Competitiveness
5. **Soumasekhar Gangopadhyay** ; Researcher, Institute for Competitiveness
6. **Sampriti Mukherjee**; Researcher, Institute for Competitiveness
7. **Jatin Nair**; Researcher, Institute for Competitiveness
8. **Himanshu Sharma**; Corporate Consultant
9. **Neera Vohra**; Program Director, Institute for Competitiveness

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The Institute for Competitiveness

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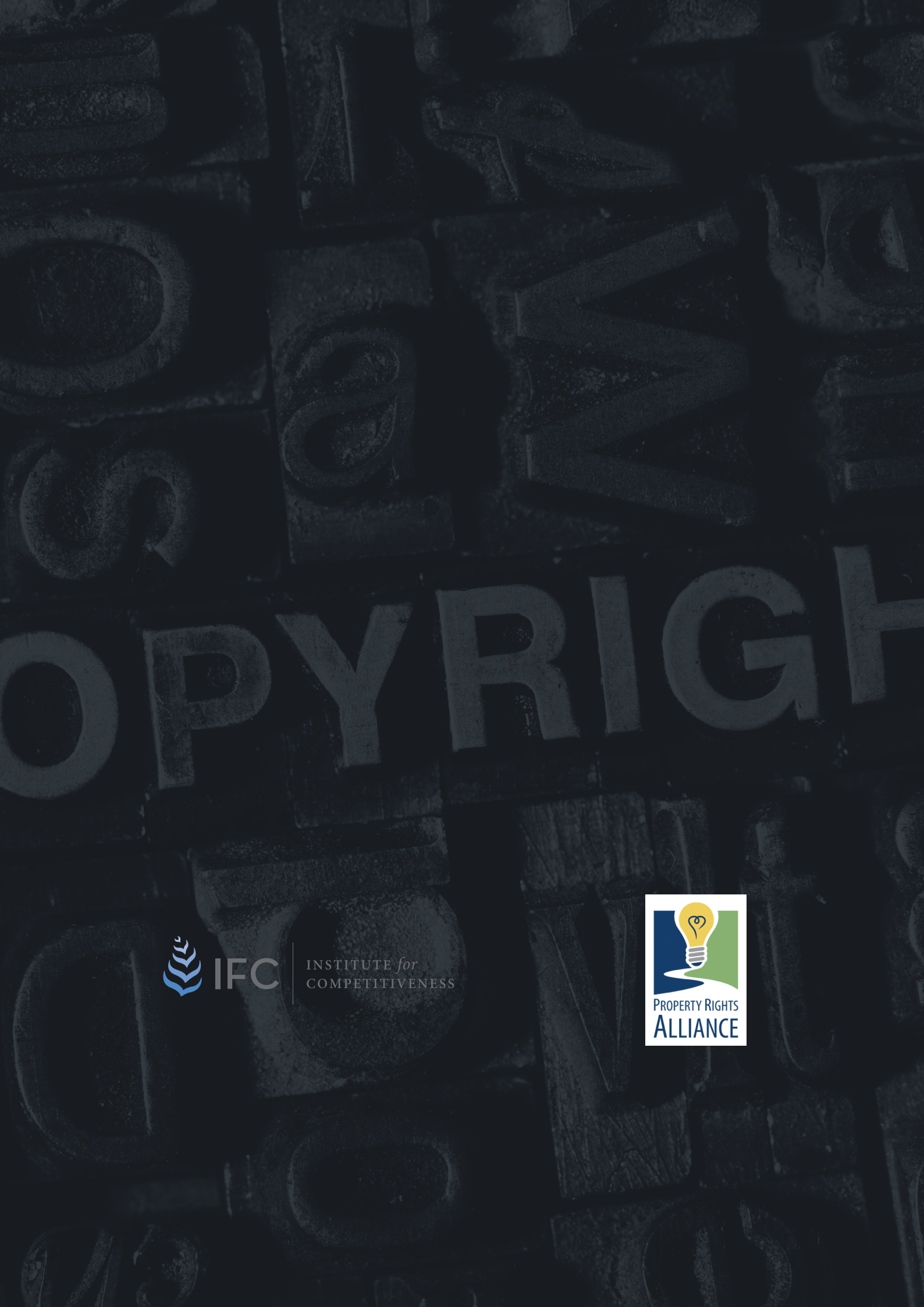
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