

Preferential Trade Agreements and IPR: Evidence on Trade and Technology-Diffusion Impacts

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Abstract

In recent decades the world has seen a proliferation of “deep” preferential trade agreements (PTAs), which are focused less on tariff cuts and more on cross-border regulatory reforms or even harmonization. Among the key regulatory areas covered is intellectual property rights (IPR), with various deep PTAs requiring a range of “TRIPS-Plus” provisions on protection norms, subject matter, and enforcement. The United States and the European Union have led this process, though with different objectives and varying levels of policy reforms mandated across functional IPR areas. More recently, Japan, South Korea, and several emerging economies have promulgated such PTAs. They also feature prominently in various “mega” PTAs, such as the USMCA and the CPTPP.

Economists have devoted significant attention recently to understanding the theoretical and empirical implications of such agreements, which have been called “Intellectual-Property Related Trade Agreements” or IPAs. Thus, one portion of this paper will textually address the complex theoretical foundations of IPAs. For example, trade liberalization *per se* is generally expected to increase trade and investment flows, raising economic efficiency and welfare, even if it may redistribute incomes within partner nations. However, IPR reforms address key information problems that necessarily exist in a second-best world, making it difficult to reach predictions about the impacts of policy. When combined, tariff cuts and IPR provisions (leaving aside other areas of regulation within PTAs) have exceptionally complex outcomes in principle. For example, as lower tariffs render markets more competitive, stronger patents may increase market power on the part of foreign firms, making the ultimate outcome regarding efficiency and even knowledge transfer unclear. At the same time, patents may complement trade liberalization by encouraging more trade protected by IPR. Finally, there are questions about the innovation and technology-transfer effects: do IPAs result in more *intellectual property creation* or *intellectual property diversion*? Such questions need far more analysis.

Considerably more work is being performed to study the empirical effects of IPAs. Thus, the greater portion of this paper will review a series of recent studies on how bilateral trade flows and cross-border patent applications have been altered by IPAs, both on the part of member countries and between members and non-members. Again, in this complex milieu there are few strong prior predictions, making rigorous empirical work essential. The review will highlight a series of findings. For example, bilateral trade within PTA members tends to be encouraged in certain high-technology products, while tending to divert trade away from poorer nations. For another, bilateral patent applications are also affected strongly, but the impacts vary across certain typologies of IPAs and the development levels of participant and non-participant countries. The paper will conclude with some thoughts about the joint evolution of PTAs and IPR provisions may evolve going forward.