First-Mover Advantages Before and After TRIPS
Evidence from the Indian Pharmaceutical Industry
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ABSTRACT

Scholars argue that the presence of persistent first-mover advantages obviates the need for relatively long-lived patents as incentives for innovations. What then is the impact of the strengthening of patent protection, particularly in developing economies, on non-patent-based first-mover advantages? We investigate this question by estimating the extent of erosion of first-mover advantages in the Indian pharmaceutical industry due to the introduction of a stronger product-patent regime in January 2005. We distinguish between newly created and pre-existing markets, in which the strength of product patent protection differs systematically. Our analyses account for the endogeneity of entry order. We find evidence of erosion—as high as 50-percent—that is robust to alternative estimation strategies and definitions of dependent variables. We extend the Suarez-Lanzolla framework and highlight the role of regulatory factors on the relationship between first-mover advantages and intellectual property rights and discuss managerial and policy implications.

Keywords: First-mover advantage, pharmaceuticals, IPR, India