

Trade in Counterfeit Goods And Free Trade Zones

EVIDENCE FROM RECENT TRENDS

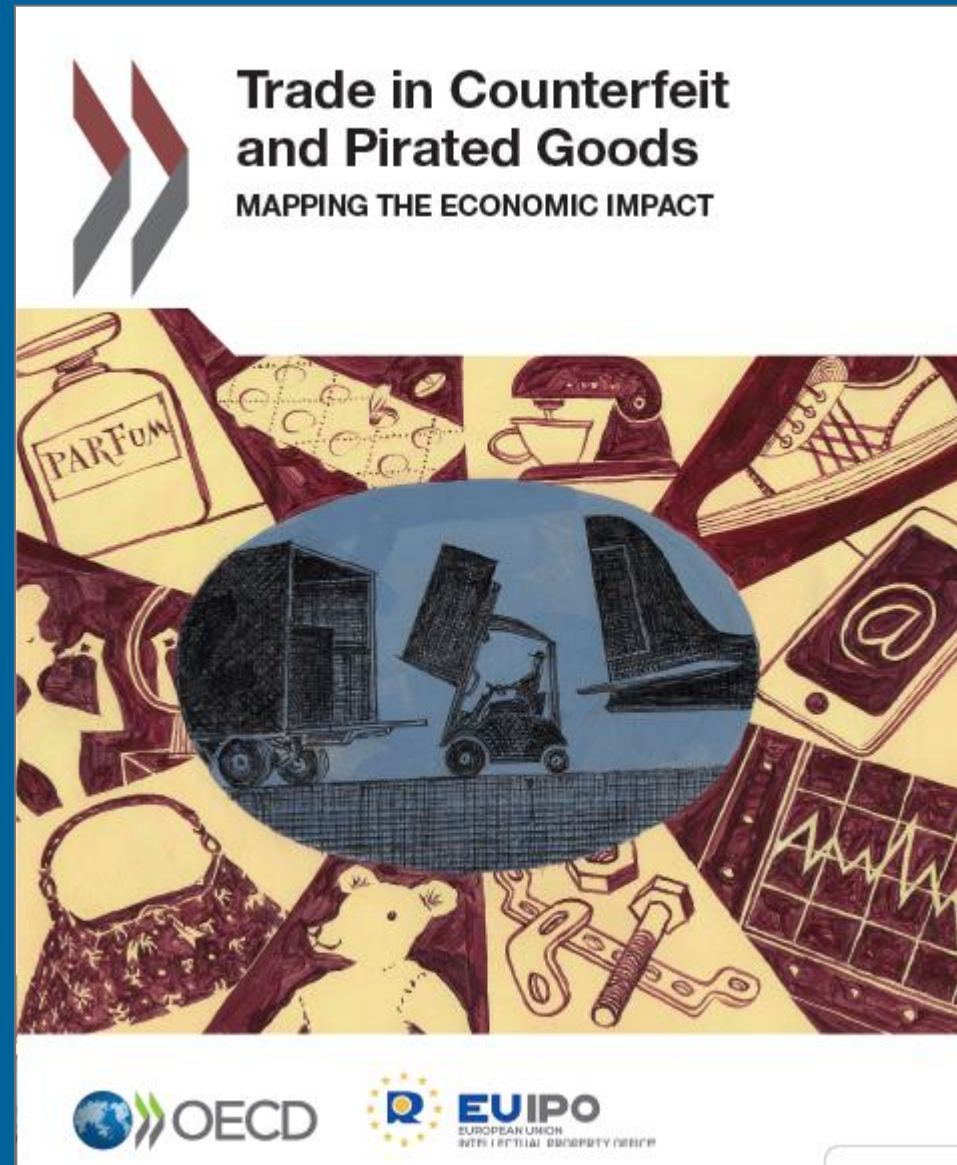
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10 April 2018





Background

*Trade in Counterfeit and
Pirated Goods:
Mapping the Economic
Impact*
(published April 2016)





Key results – 2016 study



Worldwide

€338
billion

(USD 461bn)
Trade in fake goods

Corresponds to 2.5%
of global trade

EU

€85
billion

(USD 116bn)
of EU imports

Corresponds to 5%
of total EU imports

Mapping the real routes of trade in fake goods

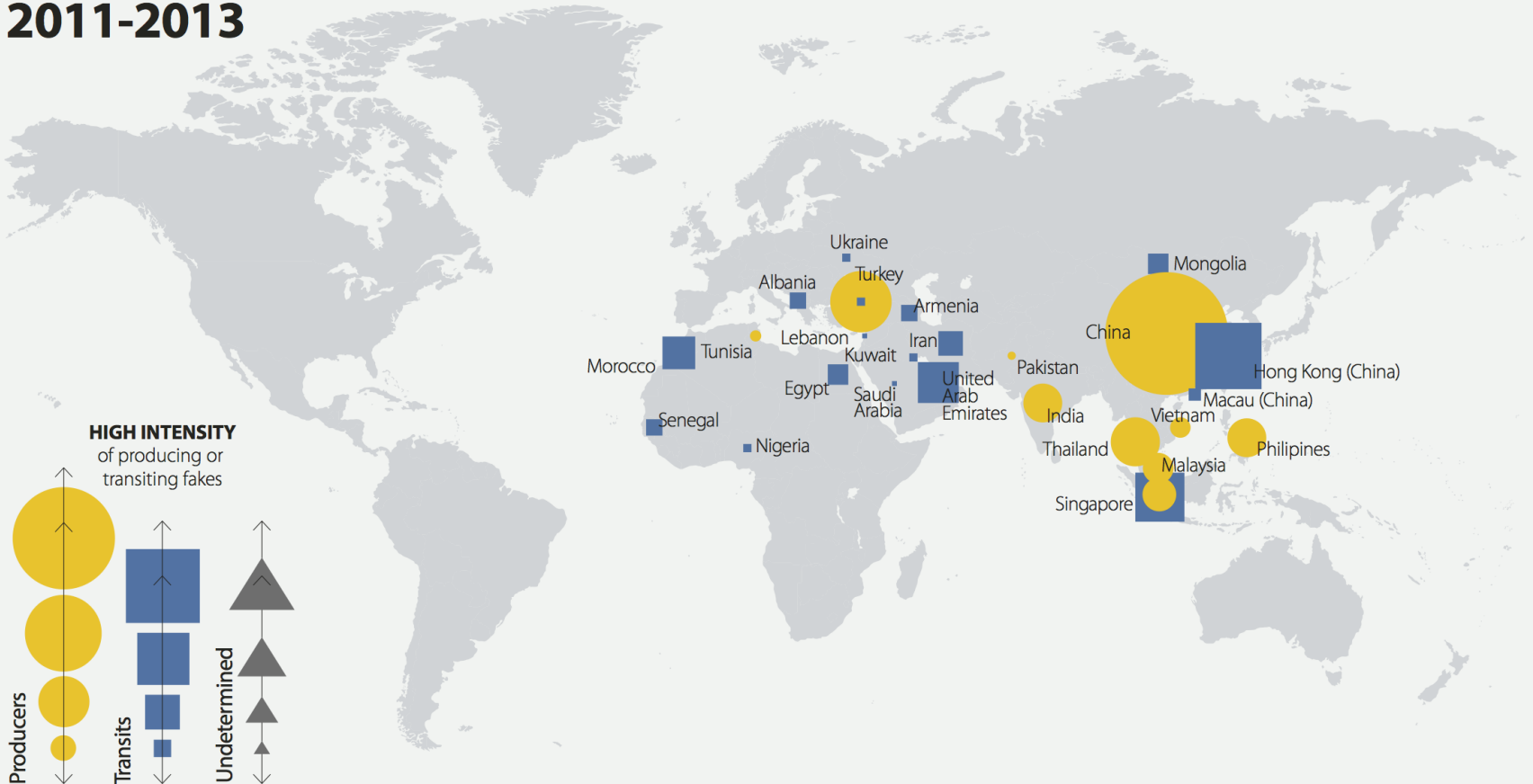
(Published June 2017)



Key results – 2017 study



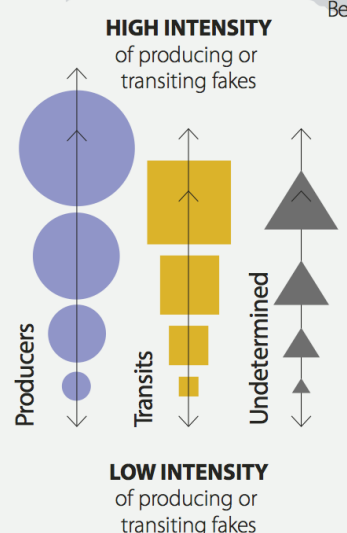
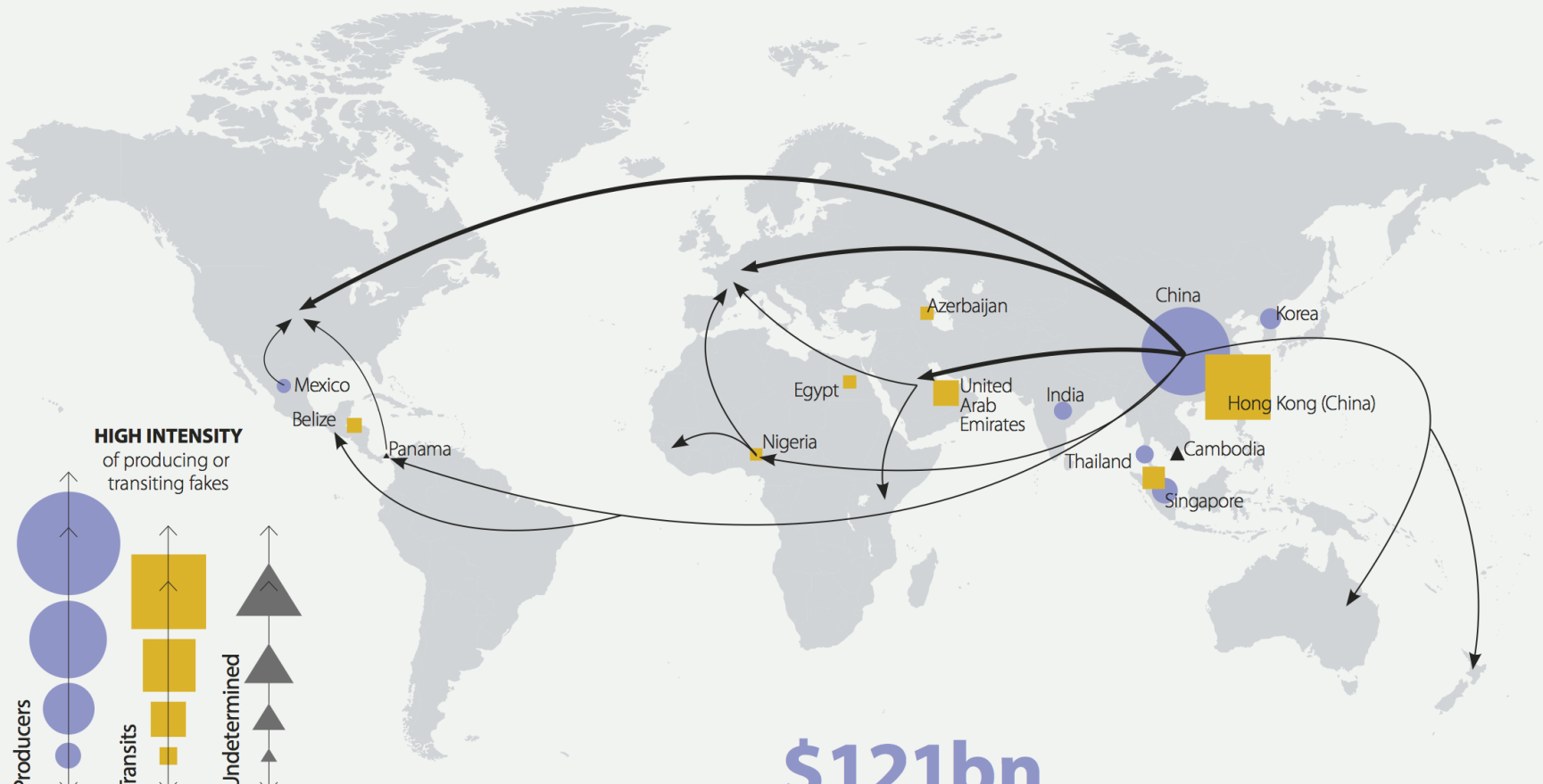
Main **producers** and **transit points** of fakes shipped to the EU, 2011-2013



The probability for producing fakes is based on the average GTRIC scores for the analysed economy. For more details on the GTRIC index see the OECD/EUIPO report.



The key trade routes for fake electronics and electrical equipment



The probability for producing fakes is based on the average GTRIC scores for the analysed economy. For more details on the GTRIC index see the OECD/EUIPO report.

\$121bn
the global trade value of fake electronics and electrical equipment



Third study (March 2018)



- From the previous two studies, it is apparent that:
 - The volume of counterfeit trade is huge; and
 - **Free Trade Zones** play an important role in getting them to markets in Europe and North America.
- But how important, exactly?



Free Trade Zones (FTZs):

- are geographically delimited, usually physically secured areas
- offer **benefits** based upon physical location within the zone
- represent separate, duty-free customs areas – **but “duty-free” does not mean “law-free”!**



Potential direct benefits for companies.

Lower / no:

- corporate income taxes
- personal income taxes
- permit fees and service charges
- rental or sales fees
- import duties
- concession fees for utilities and the like that are linked to the zones



Introduction



Area	Potential benefits for hosting economies
Direct benefits:	
1. Exports	Increased exports increase foreign exchange reserves and improve the balance of payments.
2. Local supply chains	More business for domestic producers who sell inputs needed by zone-based firms.
3. FDI	Increased currency inputs, enhances the host country's capital formation process.
4. Employment	More jobs (that might have gone elsewhere).
5. Incomes	Wages may be lower than in developed countries but can be higher than in the host's domestic territory and can rise rapidly over time.
Long-term externalities:	
1. Technology and knowledge transfer	This is distinct from FDI, which does not necessarily entail such transfers.
2. Labour skills	The employability of workers outside the zones is enhanced and has implication throughout the economy.
3. Regional development	Zones can be established selectively in areas that can best capitalize on an economy's strengths and/or that need new business activity the most.
4. Infrastructure	Development of an efficient industrial infrastructure is critical for a successful zone program; it enables the host country to compete more effectively for FDI.
5. Support services	Successful zone require banking, legal, consulting, telecom, and other similar support services that, once developed for the zone(s), benefit the nation as a whole.
6. Controlled/partial deregulation	Enables host to participate in the international economy without compromising national policies or political ideologies.
7. Deregulation models	Where deregulation is desired, zones enable the testing of models prior to applying them nationally.
8. Broader catalyst and demonstration effects	Overall economic modernization, especially because EPZs help to attract foreign firms that might not otherwise have invested in the country



Introduction



- FTZs provide numerous benefits to business and host countries...
- ... but lightly regulated FTZs are also attractive to parties engaged in illegal and criminal activities, such as:
 - Trade in counterfeit goods
 - Smuggling
 - Money laundering



Introduction



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- This study quantitatively confirms the links between trade in counterfeit and pirated goods and FTZ



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How to measure FTZs?

- number and size of FTZs
- number of firms operating in FTZs
- total value of exports from FTZs



The study



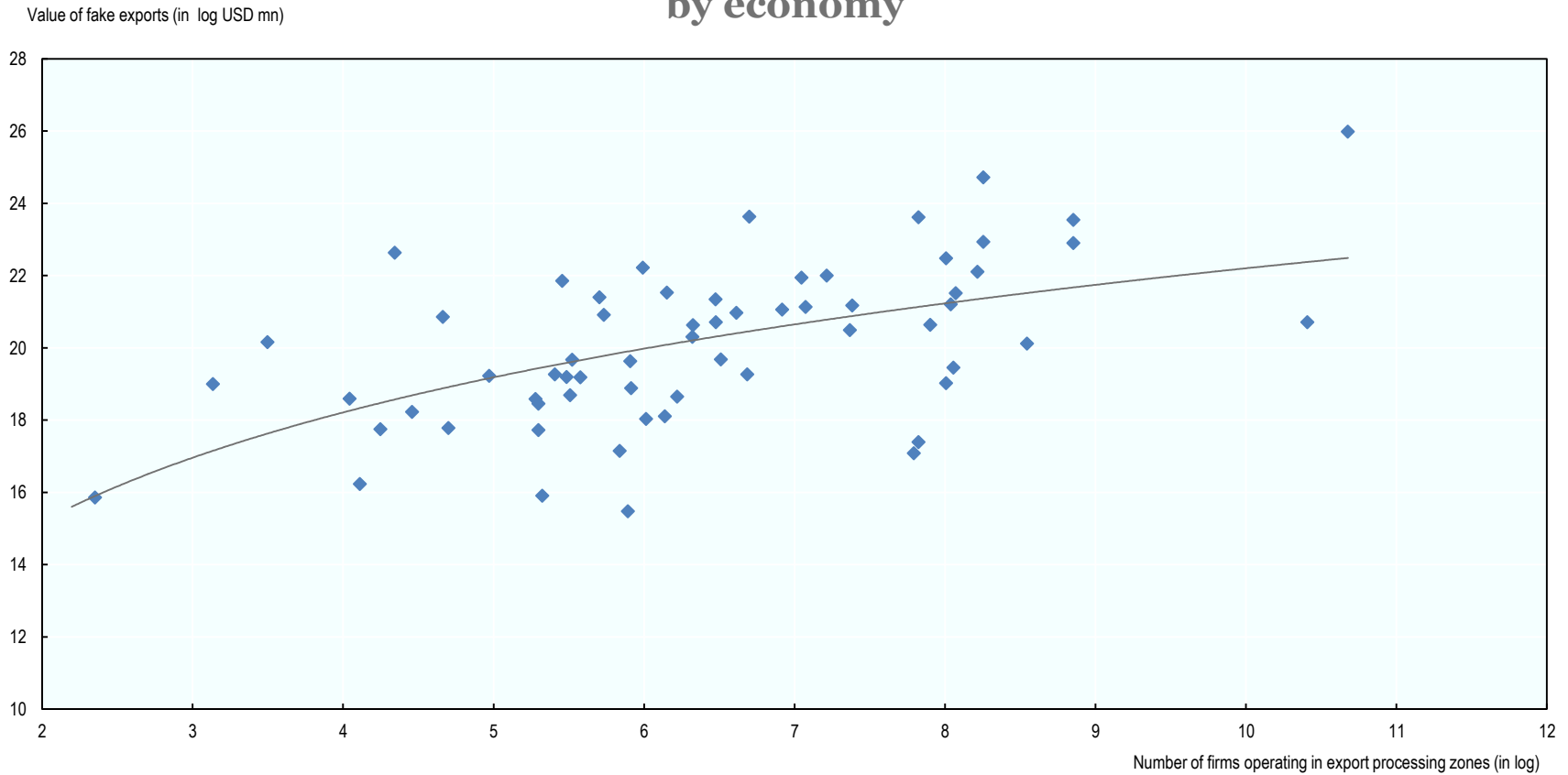
- Information on national FTZ policy and activity was extracted from the Dauphine's World FTZ database
 - Information on the value of counterfeit and pirated goods exported from each economy is provided by the OECD/EUIPO (2016) report
- NB: *two completely different sources*



Simple Correlations



Value of fake exports and number of firms operating in FTZs by economy

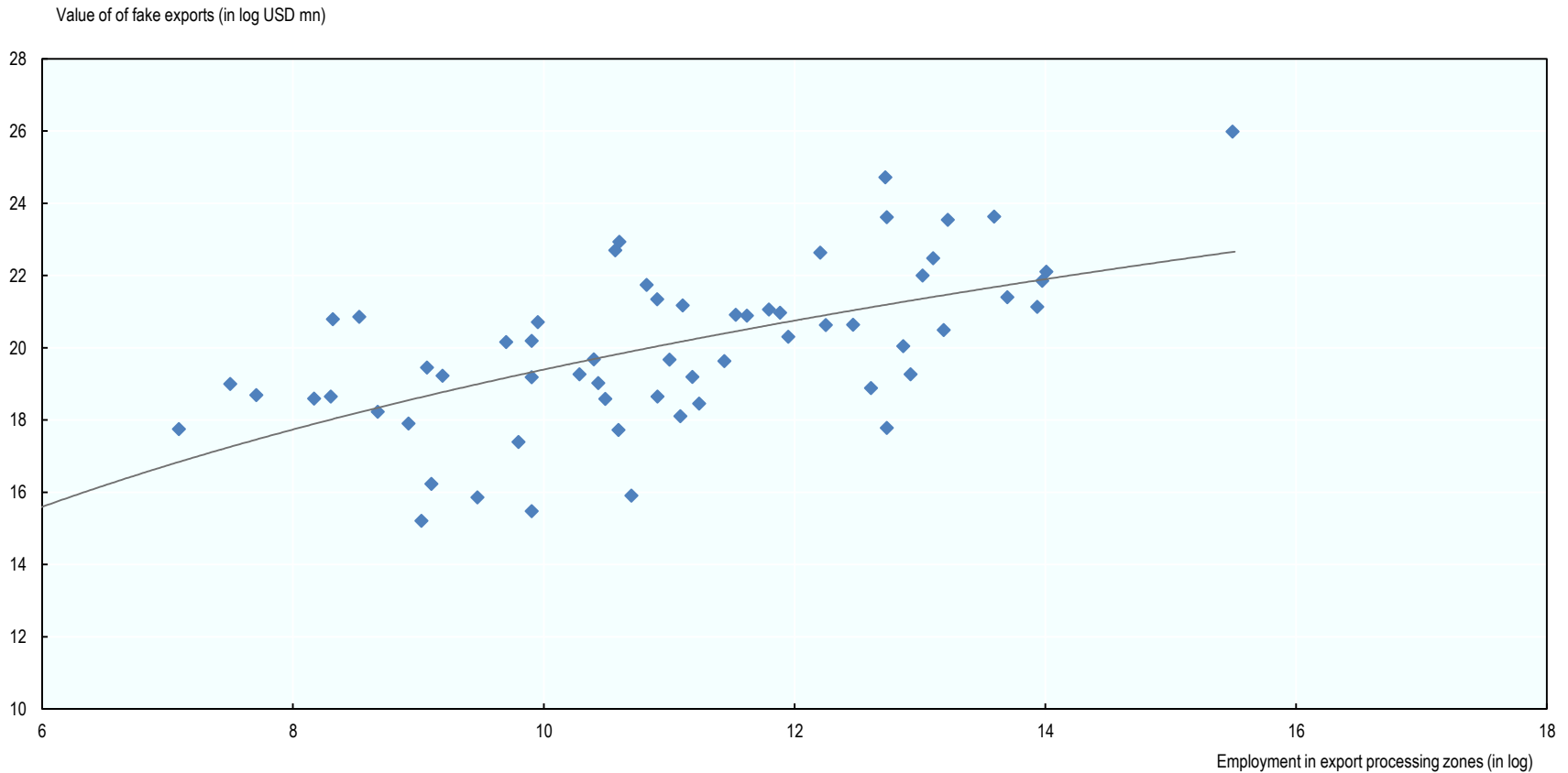




Simple correlations



Value of fake exports and employment in FTZs by economy

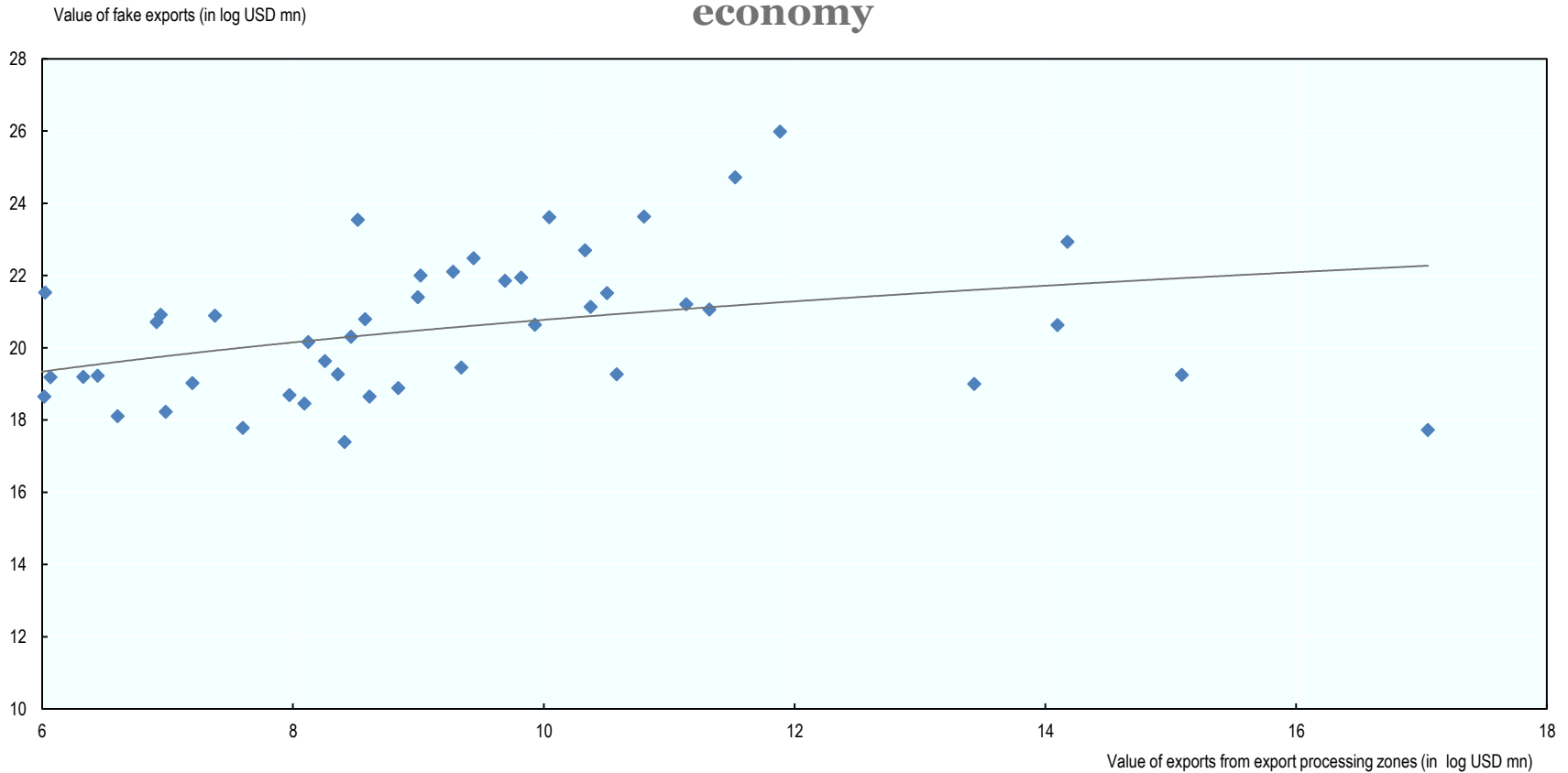




Simple correlations



Value of fake exports and value of exports from EPZs by economy





Other factors (controls) also influence exports of fake goods.

1. Total value exports
 2. Income per capita and its square
 3. Corruption
 4. Bureaucratic procedures
- ...



Econometric model



- By provenance economy i and year t (for the 2011-2013 period):

$$\ln C_{it} = \alpha + \ln X_i + \ln Z_{it} + \delta_t + \varepsilon_{it}$$

with:

$$\left\{ \begin{array}{l} C_{it}: \text{the estimated value of fakes} \\ X_i: \text{FTZs – related variables} \\ Z_{it}: \text{control variables} \\ \delta_t: \text{time fixed – effects} \\ \varepsilon_{it}: \text{error term} \end{array} \right.$$



Results



- On average, an additional FTZ within an economy is associated with a 5.9% increase in the value of fake exports.
- An increase of 1% in the number of firms operating in Zones / in the number of employees working in zones increase the value of fake exports by 0.29% and 0.21%, respectively.



Conclusion



- The number and size of FTZs significantly affects the value of counterfeit and pirated goods exported by an economy.
- This means that FTZs have become a useful tool for counterfeiters, who regularly misuse them in their operations.



Next steps



- Further joint OECD-EUIPO studies of counterfeit trade;
- In parallel, OECD is developing policy guidance to ensure that the benefits of Free Trade Zones are realised while avoiding illicit trade.



Thank you

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