



TRADE IN COUNTERFEIT GOODS FROM CHINA INTO SE ASIA

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INTRODUCTION

- Study on the **cross-border trade in counterfeit goods** between China and South East Asia (SE Asia); initiated by IPO UK
- Updates a similar 2015 report and covers developments in routes, the impact of ecommerce growth, the COVID-19 pandemic, and changing patterns in the SE Asian counterfeit trade.
- The report contains data, evidence and anecdotal information as well as analysis, practical recommendations and solutions (interventions).
- The report used interviews with brand protection, IP professionals and e-commerce platforms to present an assessment of the position as at early 2021.

Data Sources include:

UNDOC, OECD
China GACC, SEA Customs
EU ASEAN Business Council,
CBBC, ICC, QBPC
Interpol, Europol
UKIPO, EUIPO
Rouse, IP Komodo
Economist Intelligence Unit,
Economic Times, Jakarta
Post, Reuters, Xinhua
WTR, INTA
University of Groningen ITG.,
USTR, EU Commission

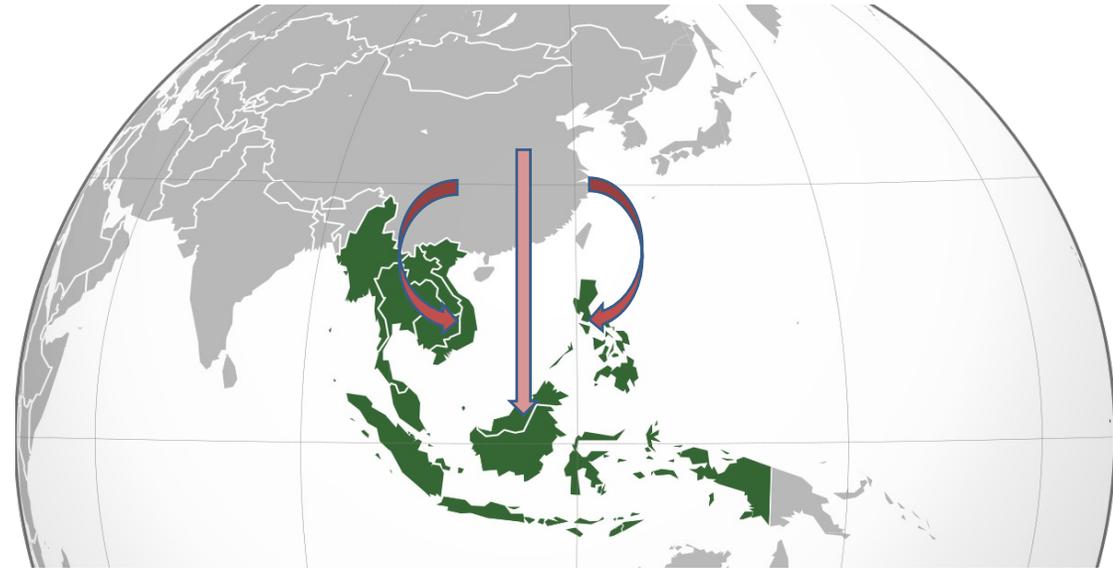
CHINA SE ASIA TRADE IN 2021

Bilateral trade and economic cooperation between China and the ASEAN region continued to grow.

In 2020 the **ASEAN region became China's largest trading partner**, overtaking the EU, for the first time.

Growth in **internet and ecommerce** trade has led to a significant increase in the number of small airfreight.

Complexity has increased leading to a **wider range of counterfeit goods channels** of trade.



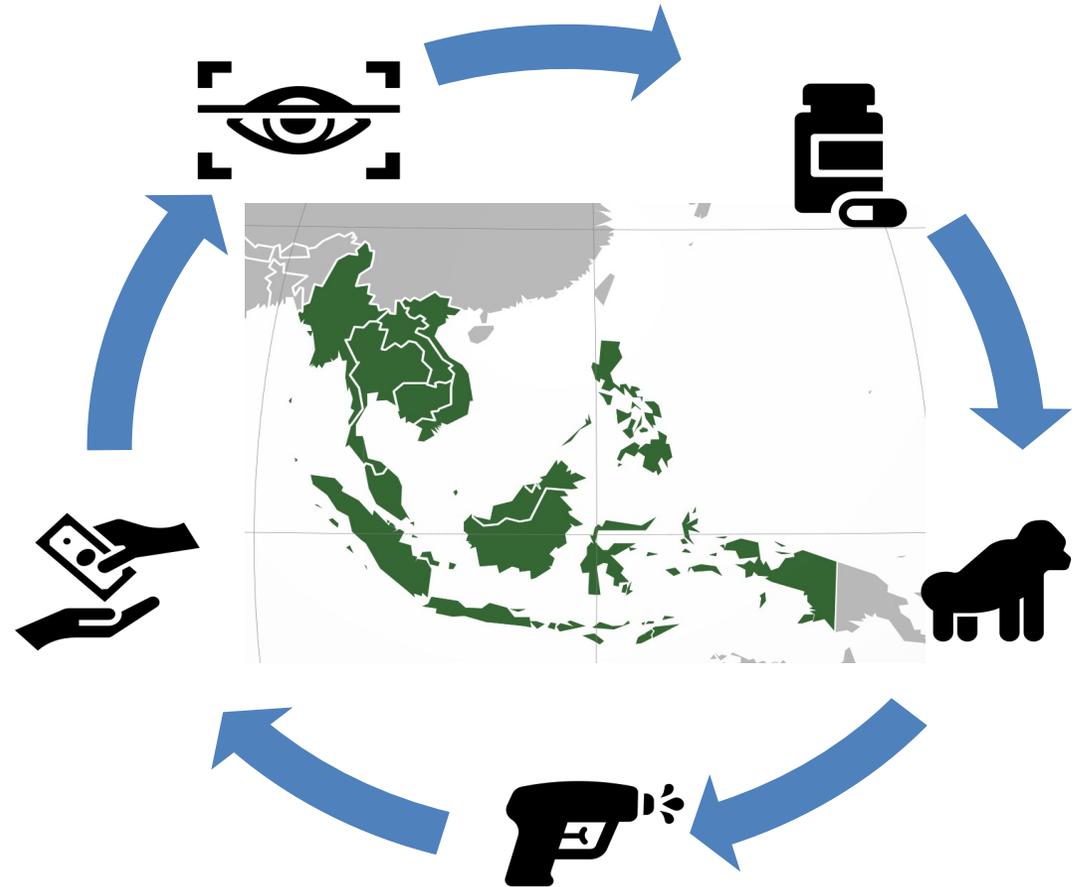
China has been ASEAN's largest trade partner since 2008; in 2020 China – ASEAN trade partnership became world's largest at \$731.9 billion; growing at 7% p.a.

COUNTERFEITING AND ILLICIT TRADE

Counterfeit trade is part of a wider trade in **grey goods** (alcohol, tobacco and other highly taxed goods) and **illicit goods** (people, narcotics, synthetic drugs, medicines, firearms, timber wildlife)

Weak border regimes, a long and porous land border and a lack of oversight, compounded by corruption, contributes to this trade in illegal goods.

Counterfeiting does not exist in a vacuum. It is **more than an IP problem**. Need to partner with organisations that are also seeking to stop human, wildlife, narcotics, contraband trafficking – all illicit goods .



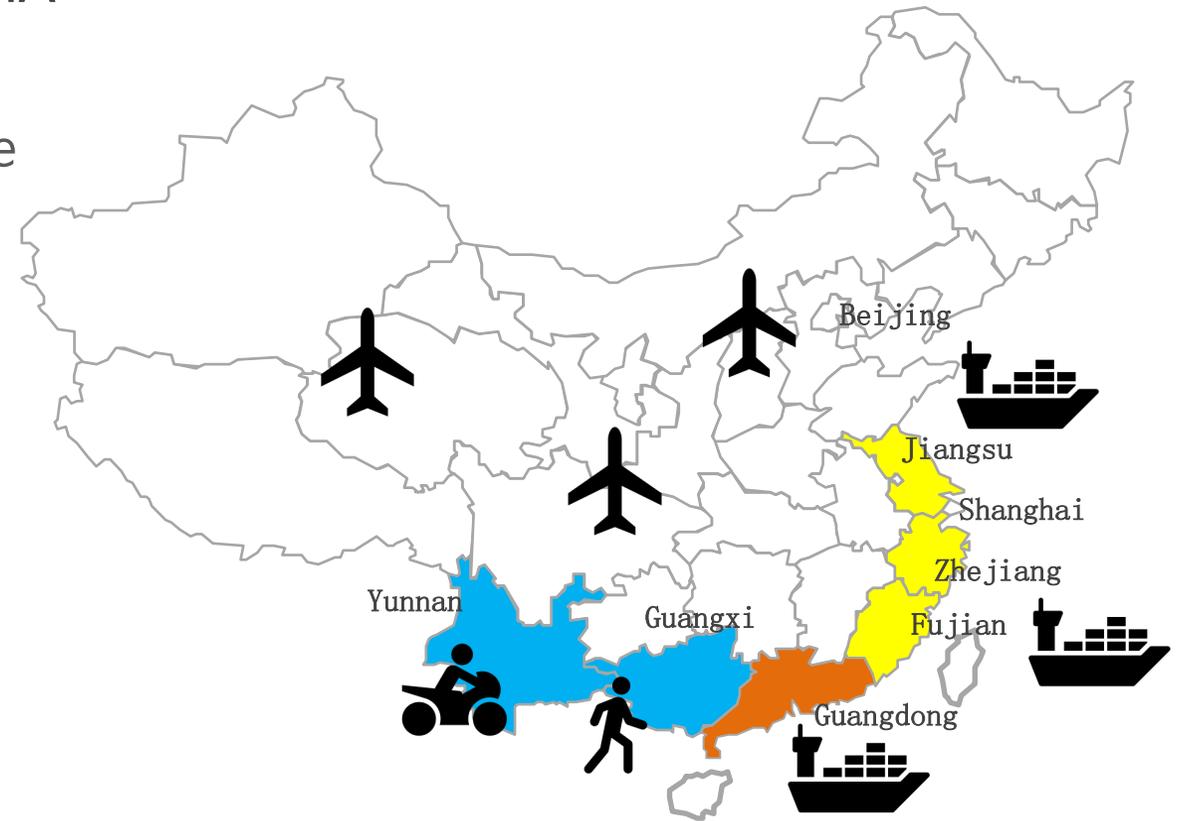
CHINA CONTINUES TO BE THE GLOBAL SOURCE OF COUNTERFEIT GOODS EXPORTED WORLD-WIDE AND TO SE ASIA

China is widely identified as the **primary source** of the world's counterfeit goods (75%+ of all counterfeits).

Size of the trade of counterfeit goods from China into SE Asia is approximately **USD35 billion** in 2020.

Poses **significant harm** to SE Asia's economies, taxes, consumers, local business and investors.

IP owners and governments need to do more to **engage with China** to create a process or structure in which China can work with its SE Asian trade partners to effectively address the issue.



Counterfeit goods = 12.5 % of China's total exports and over 1.5 % of its GDP

CHINA CUSTOMS

Sophisticated recordal, data collection and analysis systems. Room to improve.

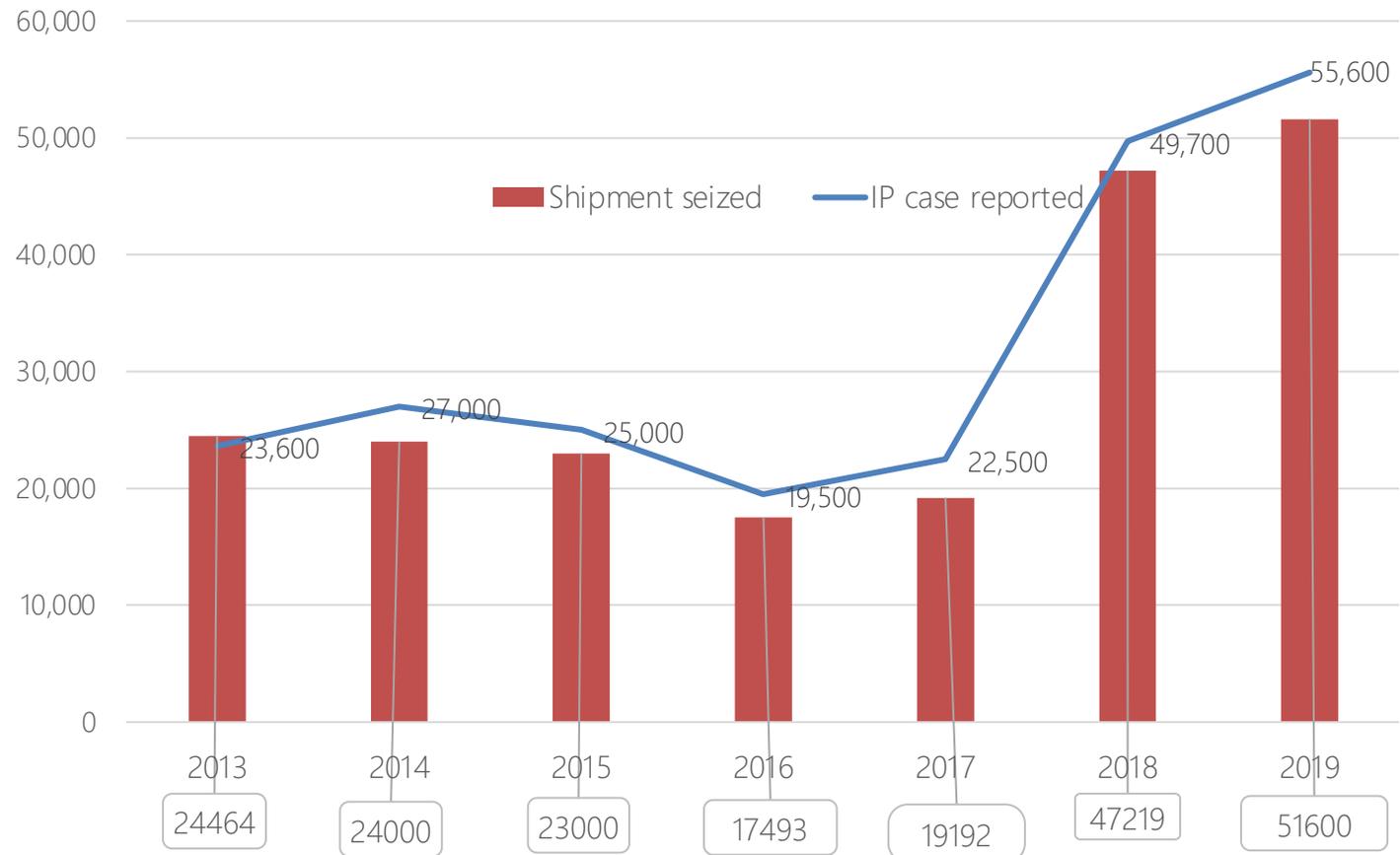
4% of IP rights holders with recordals had successful China customs seizure.

Customs need more information, intelligence and training to improve targeting/risk assessment

Poor shipping data/records is key barrier to identifying goods owners.

Need to minimise storage / warehouse / destruction obligations and costs, speed up the investigation process and reduce the need for bonds

China seized 56,181,911 goods in 2020 - the tip of the iceberg



SE ASIA CUSTOMS

Widely varying levels of Customs IP border protection.

SE Asia Governments not focused on harms from counterfeit imports. Ministries of Finance control Customs – disconnected from IP policy.

No focus on KPIs /results (# seizures for recorded brands).

Almost no legal follow up anywhere.

Only Thailand has a well-functioning Customs system

Singapore issue is transshipment, often connected to Batam in Indonesia (transnational crime)

	Custom IP recordal system	Recordal number	Seizures	Effectiveness
Thailand	✓	900	1073	★★★★
Vietnam	✓	N/A	78	★★
Indonesia	✓	4	3	★
Malaysia		×	×	
Philippines	✓	112	Almost nothing	★
Singapore		×	A few p.a.	★

THE HARMS FROM COUNTERFEITS

Counterfeits cause a variety of harms.

Some pose dangers to consumers, others negatively impact local economy

Counterfeiting straddles large **grey /underground economies** as well as huge dangerous **criminal economy**, worth billions of dollars.

These harms are not considered meaningful by SE Asian governments.

Customs IP border seizures are a far **more cost-effective solution** than trying to catch counterfeits after they have entered the country.

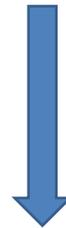


What size of legitimate trade would UDS35 billions of counterfeits translate to? Around one more Myanmar.

IP BORDER PROTECTION REGULATION

The recordal and ex officio seizure systems offered in the UK and China (as well as US and Europe) whereby suspect goods are flagged and reported to IP owners, then quickly seized, is the industry gold standard. Thailand uses this.

No other systems are actually effective.



SINGAPORE CUSTOMS



KEMENTERIAN KEUANGAN
DIREKTORAT JENDERAL BEA DAN CUKAI



Bureau of Customs PH



OFFICIAL PORTAL
ROYAL MALAYSIAN CUSTOMS DEPARTMENT
For Trade Facilitation

FREE TRADE ZONES IN SE ASIA

FTZs and SEZs actively support illicit and counterfeit trade.

FTZs serve to hold, redistribute and facilitate the trade in counterfeit goods

SEZs allow the reprocessing of goods so unbranded packaging can be shipped and then rebranded and packaged for onward transit.

Lack of domestic law applicability; inaccessibility; lack of Customs oversight; so illicit activities thrive.

Well known OECD and BASCAP recommendations exist; engagement with the World Free Zones Organisation.



ECOMMERCE IMPACT

SE Asia ecommerce trade now worth somewhere between USD 50-100 bn (depending on the source) and is growing at around 40% per year.

2 models:

- SE Asian traders source from China, then resell or dropship
- Chinese traders sell direct on Chinese export sites or increasingly on SE Asian platforms

SE Asian platforms subject to weak ISP liability so are reluctant to take counterfeit goods down, supervise merchants' business or even identify merchants. No proactivity (except for Lazada) means most platforms are filled with counterfeits.

AliExpress

Alibaba.com



How much of the USD35 billion counterfeit trade passes through SE Asian ecommerce platforms?

RECENT SOURCING TRENDS

No widespread shift of counterfeiting activity from China to other countries in the region. China's strong counterfeit supply chain network, infrastructure, knowledge base and quality are not things that can be easily replicated in SE Asian countries just yet.

There was no evidence to suggest that China's Belt and Road initiative has had an impact on counterfeiting activity in the region.

Vast increase in small parcels and regional cross-border logistics growth led to major delivery infrastructure projects, new technology and other initiatives that are reshaping air cargo, connections between China and SE Asia. A huge new infrastructure for one-stop-shop solutions for Chinese sellers and SEA merchants exists. SE Asian Customs cannot even address 'regular' counterfeit trade; so how are they going to monitor millions of packages a day? New technology based volume focused risk assessment and analysis with rapid inspections, is needed.



THANK YOU!

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