

Economic and Societal Impact of Global Counterfeiting and Piracy

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Abstract

Counterfeiting and piracy in international trade has become a global problem of immense magnitude. Counterfeiting is a victimless crime representing up to 10% of the Global trade. Counterfeiting is a social issue of 21st century, becoming a significant threat to the global economies and society. Counterfeiters don't discriminate and present in almost each and every industry. Counterfeiters aim is to target any product where a profit can be made, with no respect to the safety of the products or its effects on the consumers. Counterfeit batteries can explode, Fake automobile spare parts can collapse and counterfeit alcohol can take lives. Counterfeiting in recent times has gone well outside the national limits and includes the illegal production and distribution of fake versions of renowned, popular and respected brand name products affecting a wide range of organizations. These contraband products are manufactured and sold in economies or in markets where they go unregulated and escape normal tax and tariff payments. They expose consumers to health, safety and quality risks and levy costs on society at large, in terms of employment and crime. A recent study conducted by Business Action to Stop Counterfeiting and Piracy (BASCAP) indicates the global value of counterfeit and pirated goods, currently estimated at US\$600-650 billion, is likely to more than double by 2015. Along with smuggling, counterfeiting and fake have become major contributors towards generation of black money, which in turn encourages criminal activities which includes terrorism. Fake and smuggled goods combine to make a \$600 billion industry, which has grown by 10,000 percent in the past two decades (IACC). The present study will find out the wider economic and social effects of counterfeiting and piracy at a global level and will analyze the role of social media in curbing counterfeiting and piracy.

Keywords:

Counterfeiting, Piracy, Global, Trade

Introduction

Counterfeiting of luxury, consumer and industrial goods has become a global economic and societal problem of enormous magnitude and is more familiar with the developing countries (Economist, 2003). In today's era of stiff competition, where branding is the only way to dominate the market these counterfeit and pirated goods are providing a real challenge to the marketers. Genuine brand manufacturers used to spend their resources and time a lot to build the brand identity and image into consumer's mind (Green and Smith, 2002), but these

counterfeiters are earning huge profits by deceiving the consumers.

Counterfeiting- The problem

“While the world is growing by three to four percent, counterfeits are growing by 150 percent”- Sridhar (2007). Counterfeiting has become a significant economic and societal issue and is referred as “The crime of the 21st century” (ACG Report 2003). Counterfeiters used to emerge in developing economies where low literacy level, low purchasing power, higher unemployment rate, less consumerism, slow judiciary process and integration between counterfeiters and law enforcers are found (Bush et al. 1989, Wee et al. 1995, Chaudhry et al. 1996, Cordell et al. 1996). Asia is the market that incurred more than one-third of the losses due to counterfeiting (Ang et al. 2001). Presently the markets are flooded with fake products; the presence of counterfeit goods in the world market has grown over 10,000 percent in the past two decades and by 1100 percent between 1984 and 1994. Recently it has been estimated that counterfeits account for 6 to 8 percent of world trade (Frasca 2009; Wilcox et al 2008). World Customs Organization 2004 report confirmed that global market for such goods exceeded \$600 billion and accounted for 7 percent of the world trade approximately (Wilcox et al 2008). Asian markets incurred more than one-third of the losses due to counterfeiting (Ang et al 2001). Counterfeits reduce the sales of genuine-items by \$15 billion to \$50 billion, and \$250 billion if pirated goods are included out of which knock-offs account for \$9 billion (Commuri 2009). International Chamber of Commerce in 2004 reported loss of \$12 billion every year in luxury goods sector due to counterfeiting, despite the commendable efforts of luxury brand marketers (Wilcox et al 2008).

Counterfeiting and Piracy - Meaning and scope

Counterfeiting and piracy has been used interchangeably by some researchers, whereas some have drawn a clear difference between the types of imitation of branded goods, such as counterfeiting, piracy, imitation brands, and grey market surplus goods (Lai & Zaichowsky, 1999). “A counterfeit product refers to a 100per cent copy made to deceive consumers into believing that it is the genuine article”- (Bamossy and Scammon, 1985). Pirated product refers to a product that are also copies of items, but they are produced with the knowledge that the customer will be aware that the item is a fake, so it is usually sold at a fraction of the price of the copied goods. Such items are sometimes known as 'Non-Deceptive fakes' (Bamossy and Scammon, 1985; Lai and Zaichowsky, 1998; Wee et al., 1995). Imitation brands also known as “Knock-offs or imitators, are not identical to the original but are similar in substance, name, form, meaning or intent to an acknowledged and widely known product or service (Lai & Zaichowsky,

1999). Grey area counterfeit products refer to products produced in factories that have been contracted by the brand manufacturers to produce more quantity than required and to sell them illegally as overruns. The final categories, Custom-made copies are replicas of trademark designs of branded products made by legitimate craftsmen.

Market for counterfeit products

Counterfeiting is rapidly growing in scale. The protection of consumer and industrial products against counterfeiting and unauthorized import is a big worry for the legitimate brand owners. This is a general perception that counterfeiting is an inevitable offspring of globalization. A consumer with little knowledge falls for the counterfeit products due to its cheaper availability. Enforcement of laws against counterfeiting is not so strict in India which is another big concern for the genuine brand manufacturers. There are a number of reasons for the morbid growth of counterfeits such as : high profitability, consumers have no issue about these counterfeit products as they are getting benefit from lower prices; difficult to recognize counterfeit versions; low ethical standards in the trade. Indian metros have become base for manufacturing counterfeit products and account for maximum Intellectual Property Rights violations. Delhi is the hub of counterfeit products in India as nearly 70 per cent counterfeit products originates from here (Kumar 2013).

Deceptive Counterfeiting- Supply side

From the manufacturer's perspective, “counterfeits of luxury brands do not require much effort to be sold, nor do they require much money to be manufactured. The amount of money and time original luxury brand owners spend in establishing brand equity is which these counterfeit goods manufacturers do not have to incur” (Commuri 2009). The price charged from the consumer by the genuine brand owners of luxury goods are generally very high from what counterfeiters charge from their customers. Also, the study conducted by Yoo and Lee in 2005, showed that when price information about the brand was provided to the respondents, the preference for genuine item diminished. Counterfeiters penetrate into the distribution channels with products that are often substandard and consumers unintentionally purchase these products, thinking that they are genuine.

Non deceptive Counterfeiting- Demand side

Demand aspect of consumers is the attitude shown by them to buy the latest luxury branded counterfeit products in spite of buying the original luxury goods. “Since demand is always the key driver of a market, various researchers have argued that consumer demand for counterfeits is one of the leading causes of the existence and upsurge in growth of the counterfeiting phenomenon” (Bamossy and Scammon 1985). Counterfeiters became more active when brand

become renowned and when its brand equity starts to signify a brand image instead of the actual tangible attributes of the product. Due to this reason they tend to buy more low-price low-quality counterfeits instead of originals (Ang et al 2001). The more successful the brand name would be, the more likely it is to have counterfeits (Nia and Zaichkowsky, 2000). This market involves consumers who knowingly, under certain conditions, are willing to purchase counterfeit or pirated products, that they know are not genuine.

Material and Methods

This study is based on secondary data. The methodology includes detailed study from various sources such as journal literature, articles, blogs and other electronic discussions. Extensive review of the relevant conceptual and empirical literature is being done. Data related to counterfeiting are being collected from government organizations like WHO (World health organization), BASCAP (Business Action to Stop Counterfeiting and Piracy) and FICCI (Federation of Indian Chambers for Commerce and industry) through their online portal. Observation method is used for the meticulous review of secondary data collected from various authorities working at district, state, national or international level against Counterfeiting and Piracy.

Aim of the study

The main aim of the study is to define the meaning and the scope of counterfeiting and to draw a clear distinction between the terms like Counterfeiting, Piracy, Imitation products and Gray area market products. The present study will find out the wider economic and social effects of counterfeiting and piracy at a global level and will analyze the role of social media in curbing counterfeiting and piracy.

Impact of Counterfeiting

Economic Impact

The study commissioned by ICC BASCAP found out that the total global economic value of counterfeit and pirated products was as much as US\$650 billion in 2008 and this figure is expected to more than double to US\$1.7 trillion by 2015. According to a report by the chambers of Commerce and Industry in India (ASSOCHAM), the current market size of counterfeit products in India is 7.8 Billion USD (Rs.45000 crore) as of 2013. On an average, companies in India with well-known brands lose around 25% of market share due to fakes. Of this Delhi alone contributes nearly 75 per cent to the production of fake goods. The report indicates that besides being a big market for fake products, the Capital is the main transit point for the sale of such goods (Kumar, 2013). As per the Motion Pictures Distributors Association (MPDA), India is among the top nations in the world in terms of video piracy. MPDA India estimates that the loss due to piracy in 2012 was 1.1 billion USD, an increase of 15.79% from 2008. Economic impact of counterfeiting also includes facts like tax losses to the government, increased legislative costs, reduced GDP, Increase in black money, increased criminal and terrorism activities, reduced employment, degradation of environment, reduced expenditure on research and development. The major effects of counterfeiting and piracy on governments are foregone tax revenues in the form of Sales Tax, Excise Tax, Income Tax and Customs Duty and so on. Tax revenue losses are particularly high in certain sectors like tobacco and alcoholic beverages where excise taxes are high. The ASSOCHAM found that counterfeiting and piracy has robbed the Indian government of US\$31.25bn in lost tax revenue. Federation of Indian chambers of commerce and industry (FICCI, 2012) has conducted a nation-wide study on Tax evasion in seven key industries. Result shows that the overall sales losses to Indian industries are Rs. 72,969 crore and overall tax loss to Indian Government is Rs. 26,190 crore (FICCI, 2012).

Table-1 Industry wise losses to Indian government (In Rs. Crore) 2012

Industry	Grey Market (In %)	Sales Loss to Industry	Direct Tax Loss to Govt.	Indirect Tax loss to Govt.	Total Tax Loss to Govt.
Auto components	29.6	9,198	421	2,305	2,726
Alcohol	10.2	5,626	260	2,250	2,510
Computer hardware	26.4	4,725	47	1,187	1,234
FMCG (Personal goods)	25.9	15,035	867	3,779	4,646
FMCG(Packaged goods)	23.4	20,378	552	5,108	5,660
Mobile phones	20.8	9,042	496	2,678	3,174
Tobacco	15.7	8,965	861	5,379	6,240
Estimated Annual Loss		72,969	3,504	22,686	26190

Source: FICCI, 2012

Havocscope, which is an online market database of illegal goods and services, calculates the worldwide losses to counterfeiting based upon 26 different counterfeit products and the economic impact of counterfeit goods and piracy in 88 countries. The result shows that economic value of

counterfeit goods worldwide is 651.77 Billion USD. Product wise losses to various sectors from counterfeiting and illicit trade are being figured out by Havocscope, 2013 is depicted in Table-2.

Table-2 Product wise losses with value

Counterfeit Area	Trade value (in USD)
Aircraft parts	2 Billion
Alcohol	1 Billion
Auto Parts	45 Billion
Batteries	23 Billion
Clothing	12 Billion
Cosmetics	3 Billion
Drugs	200 Billion
Electronics	169 Billion
Foods	49 Billion
Currency	182 Million
Pesticides	735 Million
Shoes	12 Billion
Sports products	6.5 Billion
Tobacco	4 Billion
Toys	34 Billion
Watches	1 Billion
Weapons	1.8 Billion

Source: Havocscope (2013a) at: www.havocscope.com/products/

Societal Impact

“Money is the life blood of terrorist operations. Today we're asking to stop payment”- (President George W. Bush, 24th September 2001).

Counterfeiting is a steadily growing concern that is threatening the economic growth of countries all across the world. It has become a form of organized crime with proven ties to other forms of criminal activity. In the aftermath of 9/11, the whole area of terrorist funding has become one of intense interest and inspection. Terrorist groups have multiple sources of funding, both licit and illicit. It is to be expected that terrorist groups and their sympathisers will become even more involved in counterfeiting and piracy in the future (Peter Lowe, 2006). In the past few decades, leading intelligence and law enforcement agencies of India and abroad have found the active involvement of terrorism organizations in counterfeiting. Counterfeiting of medicines, luxury goods, consumer durables etc. is a major source of contribution to funding terrorist groups. Apart from being directly involved in counterfeiting, piracy and smuggled goods to raise funds, terrorist organizations had increasingly begin to develop strong linkages with organized crime and mafia organizations to fund their operations (BASCAP). Given their vast network, it is easier for organized crime outfits to raise funds which are then laundered to finance terrorist's organization. Literature review studies and views of experts indicate that there is high profitability of the involvement of criminal organizations in manufacturing of fake drugs and currency counterfeiting. Based on the evidence with FBI, the terrorists who bombed the WTC in 1993 used funds channeled from counterfeit textile sales in New York. Al Qaeda training manuals recovered in 2002 reveals that the organization recommends active indulgence of money derived from illicit trade (Counterfeiting and organized crime, 2004).

The Automotive Component Manufacturers Association of India (ACMAI) has reported that up to 20 percent of all road accidents that occur in India are due to counterfeit auto parts. The failure of counterfeit auto parts made from sub-standard materials without any safety testing and certification is a horrifying prospect. Counterfeiting also have a deleterious effect on employment through job cuts by the companies whose products are being counterfeited as a result of falls in sales and profits. Approximately 2.5 million jobs have been destroyed by counterfeiting and piracy (Frontier economies, 2011). Studies suggest that per year millions of jobs have been destroyed by counterfeiting and piracy. Instead, if counterfeiting and piracy could be eradicated, or seriously curbed, then the same number of jobs could be created all around the world.

Risk for security and health of consumers from counterfeit

products is becoming an ever greater matter of concern these days. The highly dangerous effects on consumers of fake medicines, cosmetics, surgical equipment, food, cigarettes, alcoholic drinks, vehicle and aircraft parts, etc. receives increasingly attention among policy makers in the past years. “Pharmaceutical industry is the most counterfeited industry in India” – BASCAP (Business action to stop counterfeiting and piracy). The World Health Organization maintains a list of various cases of counterfeit medicines, some of which are less efficacious or even contain no active ingredients. In the worst cases, such medicines even contained poisonous elements, and led to disastrous effects among consumers. Counterfeit medicines are responsible for 3000 deaths across worldwide- AFP report (2011). Counterfeiting not only reduces sales of original goods but it also adversely affects the brand equity and consumer confidence and it hurts channel loyalty which directly or indirectly affects the brand-customer relationship. Legitimate manufacturers have to incur costs of protecting the brand and enforcing intellectual property rights and costs associated with legal remedies. Counterfeit products negatively affect the process of innovation, reduce the sales share of legitimate businesses and damage the brand reputation. The buyers of original luxury goods are affected when they buy fake goods due to deceptive counterfeiting as well as when others buy counterfeited luxury goods through non-deceptive counterfeiting (Commuri 2009). “Whether counterfeits are of subpar or equivalent quality and whether consumers purchase them willingly or unwittingly, counterfeits appear to unanimously imperil the equity of the genuine item” (Commuri 2009). If the counterfeit did not fulfill expectations of the consumer who bought the product not knowing that it was a counterfeit, he or she would blame the original luxury brand owner for the poor quality.

Role of Media in curbing Counterfeiting

Role of media is crucial in raising awareness about the menace of counterfeit and piracy affecting the rights of consumers and investors. Social media these days has made easy for the common public to keep the track of illicit activities. Its duty is to inform, educate and persuade people against counterfeiting and piracy. The media has a strong social and cultural impact upon society because of its inherent ability to reach large number of public, it is widely used to convey message to build public opinion and awareness. It is essential to build awareness among consumers; industry and enforcement agencies on available means for stopping this illicit trade activities. Creating awareness among the consumers about the brands and products would be a significant challenge for businesses, especially in regards to technological products as most of the consumers are illiterate or cannot understand any other language except their native language. Media can be used to

educate people about how to differentiate between counterfeit and genuine products. The media has the capability to empower the common man by spreading awareness about counterfeiting. Media should educate consumer about the impact of counterfeiting and piracy on economy, nation, health consequences and the type of criminal activities rising because of these illicit trade.

As being discussed earlier, counterfeiting is of two types: Deceptive counterfeiting and non- deceptive counterfeiting. In order to curb these two forms of counterfeiting role of media is significant. The presence of media and social networking is required in deceptive counterfeiting so as to spread education and awareness to the consumers about counterfeiting, piracy and smuggled goods. Counterfeiters are making profits by deceiving consumers because generally consumers are still unaware of these practices showing lower level of awareness and knowledge about these contraband products. Media with the help of legitimate manufacturers and distributors should teach consumers that which product is original and which one is fake, so that it will become difficult for the counterfeiter to deceive the consumer. Brand manufacturers or practitioners with the help of media should come out with brand campaigning and recognition strategies so as to maintain a particular brand image in the mind of consumer. By developing a proper awareness and education level, media can certainly curtail deceptive counterfeiting.

In Non-deceptive counterfeiting in which consumers knowingly get involved in these illicit practices of counterfeiting and piracy, media has to play a vital role. Since demand is always the key driver for supply (Bamossy and Scammon 1985), counterfeiting can actually be stopped by eradicating the demand from consumer side. Media should bring out with the factors determining consumer buying behavior for counterfeit products. Social networking against counterfeiting can also be a major anti-counterfeiting strategy because it has been found that generally consumers used to buy counterfeit products because of social influences (Ang et.al.). Consumers should be aware about the negative impacts and consequences of purchasing counterfeit products in terms of health, safety, national security and economy. Thus social media still has to follow a long way in helping brand manufacturers to curtail this social issue.

Conclusion and Suggestions

Above stated facts and discussions clearly stated that counterfeiting has become a global economic and social issue. It has grown up by enormous magnitude, poses threats to luxury brands because customer loses interest in the brand that is widely counterfeited (Commuri, 2009). Counterfeits are manufactured and consumed in all economies – emerging economies being developing countries, provide

favoring conditions for counterfeiting business. The presence of counterfeits not only affects the potential customers of genuine brands negatively, but it also makes it arduous for legitimate manufacturers to retain their existing customers. The losses incurred due to counterfeiting businesses are huge. Counterfeits undermine the phenomenon of innovation and negatively affect the brands, economies, consumers of legitimate goods, as well as general public. As counterfeiting has become an economic problem of international importance and has been growing dramatically across the globe, manufacturers of the original products and government find themselves in a constant battle against counterfeiters. This has led to a variety of countermeasures based on lawful, political, administrative, or business techniques. In present globalized economy, where all the economies are interrelated in terms of international trade and commerce, complete eradication of counterfeiting and piracy is difficult to avoid. Strict legislations, enforcement, protection of Intellectual Property Rights, Counterfeit prone supply chain distribution is required to curb only deceptive counterfeiting. If we really want complete eradication of this global menace, demand side of counterfeiting should be embattled first. Genuine brand owners, media and other government agencies should follow steps so as to educate and aware consumers to not to buy counterfeit and pirated products knowingly.

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