

The industry of copies – obstacle for the economic recovery. Examples from the markets

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Abstract. *Taking into consideration that the world economy is seriously hit, we realize there is a need for solutions, either new or old, which should support the economic re-launch and recovery. In this paper we will not focus on solutions, but on the obstacles which arise in the way of economic recovery, due to the industry of copies (counterfeit products), that had a tremendous growth during the last years, jeopardizing thus both the economic security and the consumer security, according to the examples provided hereinafter.*

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REL Code: 7H.

Four fundamental forces (forces profundes) have been indicated as the main pillars which support globalisation. These forces are: the trade, production, finances and technology (Malita, 2001). These are the most dynamic activities which make the global world spin. The figures related to the above activities have continuously increased, since 1950 till the year 2007 (for instance, only in the USA, the GDP nominal figures are approximately 50 times higher than in 1950). The main actors of globalisation are not the states, as we might be tented to believe, but the industries, the banking sector, the multinational companies, the research and development centres, new technologies discovered day after day; also, there should be mentioned as contributors, with a similar importance, the non-governmental organisations and the civil society. As all these actors to be able to play their part on the economic scene, they need products to be sold afterwards. These products are based on ideas which must be defended.

In a world having an expanding economy until four years ago, both the economists and those with the power of decision from the governmental institutions have to face a challenge, captured in the global framework. This challenge is more and more often brought into discussion. The challenge consists in defending the intellectual property. This notion has its origins in the Middle Ages, where many craftsmen and artisans used distinctive marks for the products they made, in order to be distinguished from fakes. According to WIPO (World Intellectual Property Organisation), the most recent definition of the concept of intellectual property refers to the mind creations like: inventions, literary and artistic works, symbols, names, images and models used for trade. The intellectual property is structured into two parts, according to the definition:

- *The industrial property*, which includes inventions (patents), models of industrial design and the geographical indications of the source;
- *The Copyright*, which includes the literary and artistic works (novels, poems, movies, musical works, artistic works like sculptures and paintings and also the architectural projects). Also, the innovations and the creative expression of the local and indigenous communities are examples of intellectual property, because they are “traditional”, but they are not always covered by the law which protects the intellectual property.

In this paper below, the debated subject will be from the first category, i.e. industrial property, an area which should be defended by the production companies, hoping that the original products that involve considerable

investments (e.g. the R & D funds), might return by their sales funds for the economic recovery, through the taxes.

Both on a domestic or on a supranational market (spatial concepts defined in this way from the perspective of the administered territory), a real threat is represented by the counterfeit products, which are subject to sales. During the last decades, given the current economic trends, counterfeiting became a real business and there is a tendency of certain economies to become specialised in this field. Of course, to this situation contribute also the technical, economical, social, political and geographical factors; however, the economic factors are the engine of the industry of copies.

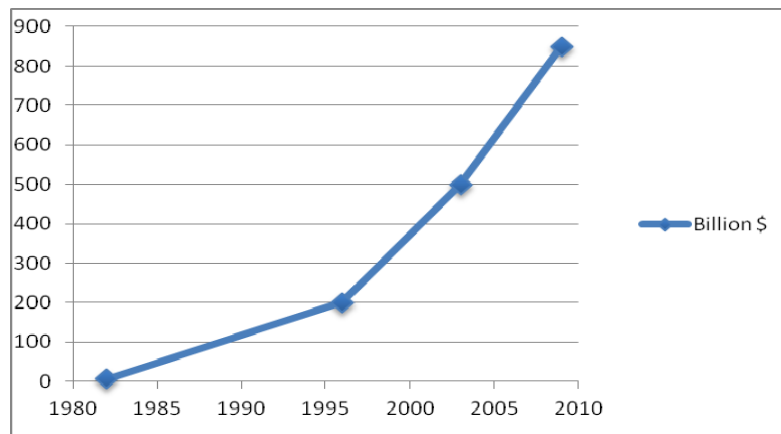
Thus, the counterfeit products' producers are driven by important and almost instant gains, and they do not need major investments, at least regarding intangible assets in the process of research and development. The biggest profit margin in this industry belongs to the luxury products, but in the same time the fast moving consumer goods, like cosmetics and clothing are not exempted by the technology theft. Which are the effects generated by this phenomenon of the illegal reproduction of products? First, we are confronted with a decrease of the quality of these products; also, among the emergent effects one may notice the increase of the underground economy, illegal employment, tax evasion or cross-border crime, but also dirty money used in financing terrorist activities (Anghel et al., 2007).

An abrupt increase of the violation of the intellectual property during the last decades has brought serious damages to the legal producers of these goods. Also, there are bigger concerns regarding the health and safety of the consumers of counterfeit products. Public health is in danger when the buyer, most of the times well intended, relies on the safety and integrity of a legitimate product to accomplish tasks which might be dangerous.

The illegal business of counterfeit products (actually belonging to another producer) and their sale of much more smaller prices than the real prices, having – most of the times – an inferior quality compared with the original goods, this represents a billion dollars' business globally. During the 1980's, this industry was worth 5.5 billion US dollars. At the beginning of 2000 this figure was around 500 billion US dollars, according to a study made by ICC (International Chamber of Commerce). Currently, this industry might worth around 850 billion US dollars.

Certain global institutions, like Interpol, estimates that the counterfeit products industry has a share of 6 to 9 percent from the entire global trade. FBI named counterfeiting the crime of the 21st Century, taking into consideration that the procurement of the equipments for producing sophisticated copies can

be rather easily realised. To account for the above-mentioned idea, we use the following graph, which was made based on the figures of the same ICC report:



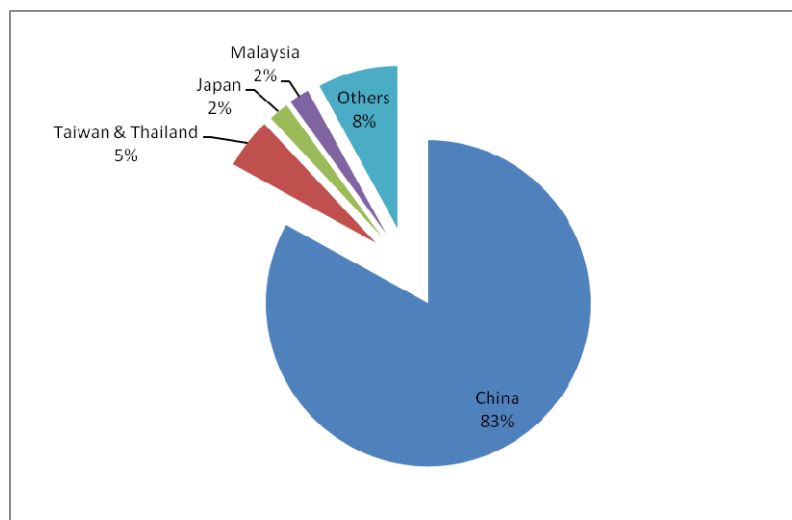
Source: www.iccwbo.org.

Figure 1. *The economic value of global counterfeiting*

Thus, the big companies have to defend their technology, but also their intangible assets. The transnational companies should by all means take into consideration the counterfeiting phenomenon in their scenario; they need to pay increased attention to the markets where they sell, as well as to the security of the technologies used in production, once they extend their market in the developing countries. Only in China the music industry, but also the soft industry (where most of the final products are on optical storage, easy to be reproduced) have a 90% rate of counterfeiting. According to Microsoft company, just 5% of the software packages they produce and which are installed on the computers in this country are legal copies (von Keller et al., 2005). The vast expansion of China's territory and also the higher integration in the chain of global suppliers determine that the problem of intellectual property become a global problem, being not any more just a domestic issue, related to this specific country. A support for the industry of copies is represented by the weak legislation framework China has, compared with its neighbours, framework which actually stimulates the activities in this field. Today China is, without any doubt, the worst offender with regard to the theft of intellectual property and industrial piracy, being responsible for 80% of the total counterfeit products reaching the borders of the United States⁽¹⁾.

In order to better exemplify the way in which this system functions, we will use one of the most significant world industries, the automotive industry. In

comparison with the above-mentioned sectors (software and music industry), the counterfeiting phenomenon in the automotive industry produces not just economic damages, but also endangers the consumers' health and physical security. It is estimated that in 2011 the market of the Chinese counterfeit products in auto spare parts has a value of 45 billion USD. Out of the total counterfeit products, China is responsible for 83%⁽²⁾, and is followed by Taiwan and Thailand, with 5% together, while the last rank Japan and Malaysia, with 2% for each of the two countries.⁽³⁾



Source: the author calculations.

Figure 2. Main countries responsible for fake automotive spare parts

The counterfeit compounds for the automotive industry cause loss not just for the legal producers, but also for the consumers of the “bad” goods; however this is not the biggest threat from the economic point of view for the automotive industry with regard to the intellectual property. A more subtle way of theft of intellectual property is what we call subtle pick-off. What does this type of theft mean? It is a way of theft of intellectual property in relation with the high technology; when a foreign producer comes in a country with a well developed industry of the copies; entire technology becomes accessible to the manufacture with which the developer (producer) co-operates. This is dangerous for the producers who relocated their production units and who externalised certain production sectors. So, the valuable results obtained in the R & D process (the research and development processes which cost the

developer million of dollars) are fraudulently acquired and used under the sign of a different brand which will compete with the initial (original) product.

A well-known victim of such a technique was General Motors. In 2004 the American company sued the Chinese company Chery Automobile Co. The subject of the trial was the car piracy, with regard to a car developed by the South Korean branch of the Group, Daewoo: the Spark model of company GM, almost identical with the model QQ from Chery. The results of the investigations initiated as a result of the claim put by GM were that the two cars had almost the same car body, the same external and internal design, as well as similar defining elements existing to both cars. By the time the trial started, GM had the sales for Spark models below the sales of the QQ model from Chery, and Spark had a higher price than the faked model. Why did this happen? It happened because in an early stage of the research of General Motors some data, both technical and design information, were not adequately secured, being thus “purchased” by Chery Automobile Co. The information was used by the Chinese company to get a car mainly identical with the Spark model, without investing resources (time and the necessary money to develop such a model). Finally, Chery could launch earlier the car on the market, selling it cheaper than the competitors.

In the automotive industry, General Motors was not the only company who had to face this kind of theft of intellectual property. Honda Motors sued another Chinese company: Shunghuam Automobile. Honda claimed that the model of the Chinese company, called Laibao SRV, has important similarities compared with their model, Honda CR-V (sport utility vehicle)⁽⁴⁾.

In both cases, General Motors and Honda didn't win the trials. It is to be noticed that some companies which look for business opportunities in China or in other emergent markets have to consider a high grade of security for the technologies they are to use in these areas.

Conclusions

The entire industry of counterfeit goods generates unplanned and undesired costs both for the producers and developers and for the consumers. The costs reflected from the perspective of the producer and/or developer consists in:

- losing the efficiency (in General Motors case we could notice that the counterfeit product was cheaper and launched earlier than the original product);

- losing confidence on the developing markets (which might cause abstinence/restriction from/on certain markets, generating a decrease of the sales turnover and of the income for certain companies);
- a more difficult process of innovation for the products of mass consumption (the difficulties are generated by the focus on the information security and on the concern of finalising the R & D process within a ‘normal’ term for the products involving high technology).

The consumer is also affected by the undesired effects of consume of counterfeit goods (for instance security, health).

In the current economic environment, with reference to the crises which started at the end of 2007, the industry of copies comes as an extra threat to innovation, if we take into consideration the fact that the innovation closely followed the GDP trend in most of the states during the last years (the tendencies were positively correlated, both having a descending trend, as shown in a previous paper). Therefore, we can actually conclude that these illegal counterfeiting and copying activities of some products are nothing else but a real obstacle for the economic recovery.

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Notes

- (1) *Counterfeiting, Crime of the 21st Century*, MEMA.
- (2) See <http://www.havocscope.com/counterfeit-auto-parts-sales-in-china/>.
- (3) See <http://motoren.wordpress.com/2011/02/17/counterfeit-parts-industry/>.
- (4) See http://www.chinadaily.com.cn/english/doc/2004-12/18/content_401235.htm.

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