

DIGITAL CITIZENS ALLIANCE REPORT

**GARTH BRUEN'S OBSERVATIONS FROM BEIJING:
CHINA'S COUNTERFEITERS AND THEIR COMPLEX ROLE IN CYBERSPACE**



U.S. CUSTOMS REPORTS THAT MORE COUNTERFEIT GOODS ARE SEIZED FROM CHINA THAN ANY OTHER COUNTRY (62 PERCENT, OR \$124.7 MILLION OF THE TOTAL DOMESTIC VALUE OF SEIZURES¹)



62%



70%

THE U.N. OFFICE ON DRUGS AND CRIME REPORTS THAT ALMOST 70 PERCENT OF ALL COUNTERFEITS SEIZED GLOBALLY BETWEEN 2008 AND 2010 CAME FROM CHINA.²

SOME U.S. COMPANIES LOSE 15-20 PERCENT OF THEIR TOTAL SALES IN CHINA TO COUNTERFEITING.³



¹ Customs and Border Protection, Intellectual Property Rights – Seizure Statistics: Fiscal Year 2011 via <http://www.theglobalipcenter.com/chinacounterfeits/>

² UN Office on Drugs and Crime report “Transnational Organized Crime in East Asia and the Pacific,” via <http://www.businessinsider.com/most-counterfeit-goods-are-from-china-2013-6#ixzz2aS4Hv7nK>

³ http://www.aief-usa.org/ipr/ipr_facts/

After returning from the annual meeting of The Internet Corporation for Assigned Names and Numbers (ICANN) this past April, I was left with a number of shifting impressions which are now part of my overall understanding of China's role in the Internet and its impact on consumption through the Internet. The footprint of China in the daily lives of Americans is enormous and largely unseen—and some forces within China want it that way. Within China, there is a cabal of shadowy operators, some potentially operating semi-independently of the very powerful government there, using the Internet to hurt businesses around the world (but particularly the United States) in various ways.

For years, China has engaged in mass infiltration of U.S.⁴ networks, denial of service attacks⁵, and the sale of knockoff products⁶ through the Internet. These activities lead us to the People's Liberation Army⁷ (PLA), which many see as a power unto itself, possibly beyond the control of the Chinese government. News reports traced much of the hacking of U.S. corporations to a building in Shanghai, which is known to be a PLA stronghold. Well, the PLA sets the industry standard when it comes to counterfeiting. The PLA has a long and storied history with secret operations as well as the underground economy. In the must-read 2005 compendium *Illicit*⁸, Foreign Policy editor Moises Naim relates a PLA story on page 128 that summarizes the Chinese problem. When the Chinese government discovered PLA officers heavily involved in the trafficking of counterfeit merchandise, they issued a policy against it, but the PLA officers simply "retired" to focus all their efforts on counterfeiting while retaining all of their influence within the army.

⁴ <http://www.foxnews.com/tech/2013/05/28/confidential-report-details-chinese-infiltration-top-us-weapons-systems/?test=latestnews>

⁵ http://www.nytimes.com/2013/03/12/world/asia/us-demands-that-china-end-hacking-and-set-cyber-rules.html?pagewanted=all&_r=0

⁶ <http://www.ft.com/intl/cms/s/2/bde2855c-cc27-11e2-9cf7-001444feab7de.html#axzz2WaMlgZAd>

⁷ http://www.nytimes.com/2013/05/20/world/asia/chinese-hackers-resume-attacks-on-us-targets.html?_r=0

⁸ ISBN 1400078849

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Just how dangerous is counterfeiting? The Government Accountability Office looked at how counterfeits affect U.S. stakeholders:

9

Negative Effects of Counterfeiting and Piracy, by Stakeholder	
Stakeholders	Negative Effects
Consumers	Health and safety risks, low quality goods
Industries	Lost sales and brand values, increased IP costs
U.S. Government	Lost tax revenue, increased enforcement costs, and risks to supply chains with national security or safety implications.

Source: GAO Analysis

⁹ <http://www.gao.gov/assets/310/303067.pdf>

Now consider that by 2015, the value of counterfeit goods will exceed two percent of the world's current economic output, which is more than \$1.7 million dollars.¹⁰

Counterfeiting has become almost an acceptable behavior within one of the world's largest and most influential economies. Consider for a moment the "Knockoff Disneyland¹¹" outside Beijing (see a picture on the next page). Disney has never been shy about taking its parks to other parts of the globe, but China would rather just do its best to replicate Disney and build it themselves. During my visit, I checked it out briefly, amazed at why it would even appeal to natives in a country with so many wonders of its own.

This Chinese counterfeit didn't quite work. This massive amusement park is abandoned, incomplete. They ran out of money, so it now sits near the capital as a strange reminder.

It is a lot easier to copy a handbag than it is an amusement park; as you see in the Digital Citizens video, counterfeit goods are everywhere and selling quite well. After his trip to ICANN, Digital Citizens Executive Director Tom Galvin brought back products with logos very familiar to U.S. consumers—The North Face, Nike, Beats by Dr. Dre—that looked like what you would find here. But they weren't; all were well-produced counterfeits. By well-produced, I mean they looked like what you find here, but these products are not up to the standards we expect in the United States.

To see video of Tom's trip click [here](#)

¹⁰ [http://www.iccwbo.org/News/Articles/2011/Impacts-of-counterfeiting-and-piracy-to-reach-US\\$17-trillion-by-2015/](http://www.iccwbo.org/News/Articles/2011/Impacts-of-counterfeiting-and-piracy-to-reach-US$17-trillion-by-2015/)

¹¹ <http://thedisneyblog.com/2011/05/13/fake-disney-theme-park-in-china-forced-to-close/>



The strong desire for luxury goods in China creates a base market from which counterfeiters can grow their business. Counterfeits manufactured in China for consumption in the rest of the world are just as popular within the country. Of course, once you have a core, you can build out—and that is exactly what counterfeiters are doing when they take their business to the United States.

Would you ride on a knockoff roller coaster built with knockoff parts? Would you drive a car or fly in a plane with counterfeit parts? When the counterfeit is a bag or a watch it does not seem dangerous, unless the seams of the bag burst open while trying to catch a cab, or toxic parts on the watch get into your skin. This issue of counterfeit parts is real and takes a peculiar turn that looks more like subtle sabotage warfare.

You might be using a counterfeit product right now and are not even aware of it. Don't feel bad, the Pentagon has been fooled as well. The U.S. military unknowingly bought counterfeit parts from China and installed them in planes, helicopters, and missile systems. Defense Department research identified some one million such cases.¹² Of the 1,800 cases of fake military parts in the supply chain identified in a recent Senate report, 70 percent of these parts originated in China.¹³ And yes, some parts are sold over the Internet.

¹² <http://www.dailymail.co.uk/news/article-2058849/Chinese-counterfeit-electronic-parts-putting-U-S-military-risk.html>

¹³ http://www.realclearpolicy.com/blog/2013/07/26/americans_understand_intellectual_property_587.html



So where does this leave the ordinary Internet consumer? Hopefully, at least, the public is left with the enhanced awareness that their money, information, and livelihoods are a battlefield. Tread softly.

HOW TO SPOT A COUNTERFEIT?

Leading merchants and news organizations have published several tips that can help consumers spot a fake before they buy. To learn more, we suggest studying the tips in these articles on the following webpages:

Consumer Reports: *"How to spot counterfeits"*

USA Today: *"To spot counterfeit goods, look for spelling errors, no bar code"* by *Sandra Block*

Today: *"Find a faker: How to spot online counterfeiters"* by *Barbara Thau*

ABC News: *"Fake luxury goods: How to spot"* by *Alan Farnham*

eBay: *"How to spot fakes, knock-offs, counterfeit items..."*



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