



# Illicit Trade and the Korean Economy



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# Foreword

Illicit trade in counterfeit goods is a growing threat in our globalised innovation-driven economy, challenging the integrity of supply chains, while negatively affecting business profits, economic growth, and consumer health and safety. Its harmful impact on global markets and on innovation should not be underestimated.

To provide policy makers with robust evidence about this threat, the OECD carried out a series of analytical studies that deepen our understanding of the scale and magnitude of the problem. The results have been published in a set of reports starting with *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact* (2016). The OECD has also produced several country case studies similar to the present report, such as *Counterfeiting and Piracy and the Swedish Economy* (2019), *Trade in Counterfeit Goods and the UK Economy* (2019), *Counterfeiting, Piracy and the Swiss Economy* (2021), *Trade in Counterfeit Goods and the Italian Economy* (2021).

The Korean economy is largely based on innovation and intellectual property (IP) and it is one of the global leaders in this area. Its IP-intensive industries are well integrated in the global economy through their active participation in global value chains. Yet while innovation and integration to world trade support Korea's economic growth, it also exposes the country to the risks of counterfeiting and piracy.

In order to design effective policies to tackle the threat of counterfeit trade, such trade needs to be identified and assessed. This report provides a quantitative assessment of the scale and harmful effects of counterfeit trade on Korean IP rights (IPR) holders and the Korean government. The analysis is based on an objective and fact-based methodology that gauges the magnitude and scale of counterfeit trade and quantifies its direct economic impact on a given economy. This methodology relies primarily on a unique set of international customs seizures data, as well as on a series of interviews with customs and IP experts and Korean industry representatives. The findings of this report will help the Korean government design policies to combat counterfeiting and piracy, and to identify the main governance gaps in this area.

This report was prepared under the auspices of the OECD Working Party on Countering Illicit Trade, which focuses on evidence-based research and advanced analytics to assist policy makers to map and understand the vulnerabilities exploited and created by illicit trade.

# Executive summary

Illicit trade in counterfeit goods is a serious threat that continues to grow in scope and magnitude, with multiple impacts on consumers, rights holders and governments. For consumers, counterfeiting poses health and safety risks. It also lowers consumer satisfaction when low-quality fakes are unwittingly purchased. For legitimate intellectual property rights (IPR) holders, counterfeiting means lost sales, lower profits, reduced innovation incentives and longer-term brand erosion. For governments, counterfeiting leads to lower tax revenues and higher unemployment. Governments also face additional expenses in addressing public safety concerns and dealing with anti-counterfeiting legislation.

Korea is one of the most innovative economies in the world. Its innovative ecosystem has been made possible due to significant government support and private investment activities in research and development. The Korean economy is also well-integrated in global value chains, which boosts Korean productivity and competitiveness. However, this high level of innovation and globalisation makes the Korean economy vulnerable as intellectual property (IP) embodied in Korean products has been subject to counterfeiting and theft.

This report examines how trade in counterfeit and pirated goods affects the Korean economy. More specifically, it evaluates the magnitude and impact of global trade in counterfeit goods that infringe the IPR of Korean rights holders. The analysis identifies product categories that are targeted, the main economies of origin of counterfeit goods, and the main trade routes and transit points used. It also assesses the losses due to counterfeiting in terms of forgone sales and profit losses, taxes forgone by the Korean government, and jobs lost in Korea.

The impact of the COVID-19 pandemic on the trade in fake goods infringing Korean companies' IPR is also assessed in this report. It is found that although the pandemic exacerbated existing trends, its impact seems to have been moderate when absolute volumes of counterfeit goods are considered. The key result of the pandemic has been the proliferation of e-commerce, which has amplified the availability and purchase of counterfeit goods online, demonstrating a discernible shift in consumer behaviour and sales channels.

# Key findings

## Scale and magnitude of the threat

- The total value of world trade in fake goods infringing Korean intellectual property (IP) rights reached up to KRW 11 096 billion (USD 9.7 billion) in 2021, equivalent to 1.5% of all genuine exports from Korea that year.
- In terms of industry-specific analysis, the global trade in fake “Korean” electrical appliances amounted up to KRW 6 978 billion (USD 6.1 billion) in 2021, representing 62% of the total value of counterfeit goods that infringed on Korean IPRs.
- The most common goods infringing Korean IPRs were electronics and telecommunications equipment which include mobile phones, TVs, screens, batteries, and related accessories (headphones, cable, chargers, covers, etc.). Other Korean products largely targeted include computers and peripheral equipment, and automotive spare parts.

## Impacts on the Korean economy

- In 2021, Korean companies lost KRW 6 978 billion (USD 6.1 billion), or 0.6% of total sales in that year (domestic plus exports), due to the infringement of their IP rights. The manufacturing industry for electrical household appliances, electronics and telecommunications equipment was by far the most affected by counterfeiting.
- In 2021, more than 13 500 jobs in the Korean manufacturing sector have been lost due to trade in counterfeit products infringing Korean intellectual property rights. The manufacturing sector of electrical household appliances, electronic and telecommunications equipment experienced the highest losses with more than 9 500 lost jobs.
- In 2021, forgone tax revenue due to (i) lower sales and lower profits for Korean rights holders and (ii) lower personal income tax revenues and lower social security contributions collected by the Korean government reached KRW 1 715 billion (USD 1.57 billion), equivalent to 0.65% of total Korean revenues collected on these two taxes.

# Main results

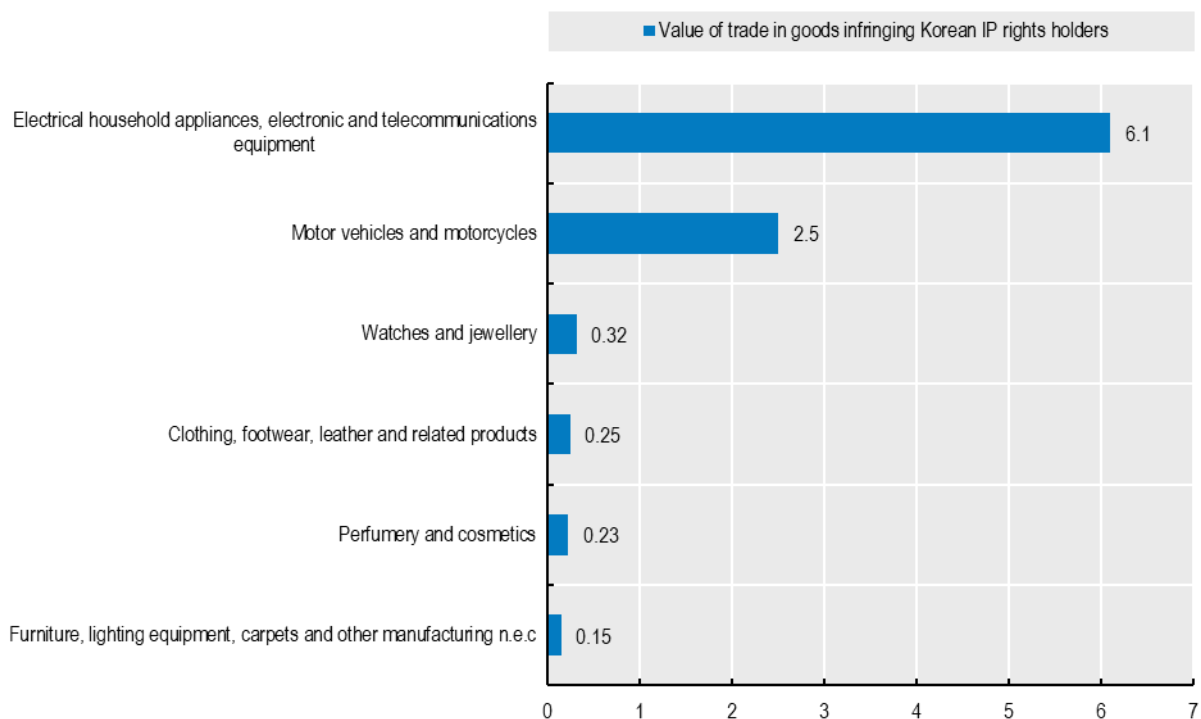
## Infringements of Korean IP in world trade

### *What is the value of global trade in counterfeit products that infringe Korean IP Rights?*

Global trade in counterfeit products infringing Korean IP rights amounted to KRW 11 096 billion (USD 9.7 billion) in 2021. This was equivalent to 1.5% of total Korean genuine exports that year.

Korean trademarks and patents related to electrical household appliances, electronic and telecommunications equipment were particularly targeted by counterfeiters in global trade. This sector represented 62% of the global value of trade infringing Korean IP rights holders in 2021 (KRW 6 978 billion, or USD 6.1 billion).

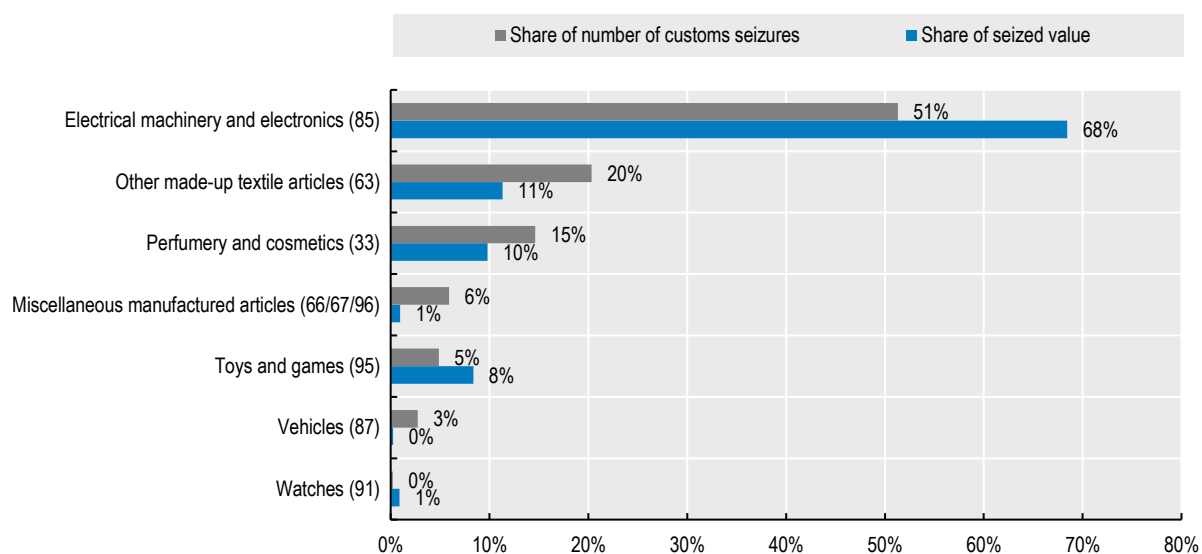
**Figure 1. Value of trade in Korean IPR infringing goods by sector in 2021**



### What type of Korean products are counterfeit?

Over the period 2020-2021, Korean products most affected by counterfeiting were electrical machinery and electronics. Fake electronic appliances infringing Korean IP rights holders represented over a half of products seized infringing Korean IPR. This category includes seizures of various types of goods such as mobile phones, ICT components, and mobile accessories (such as chargers, earbuds, and cables). Textiles articles and cosmetics were also targeted by counterfeiters.

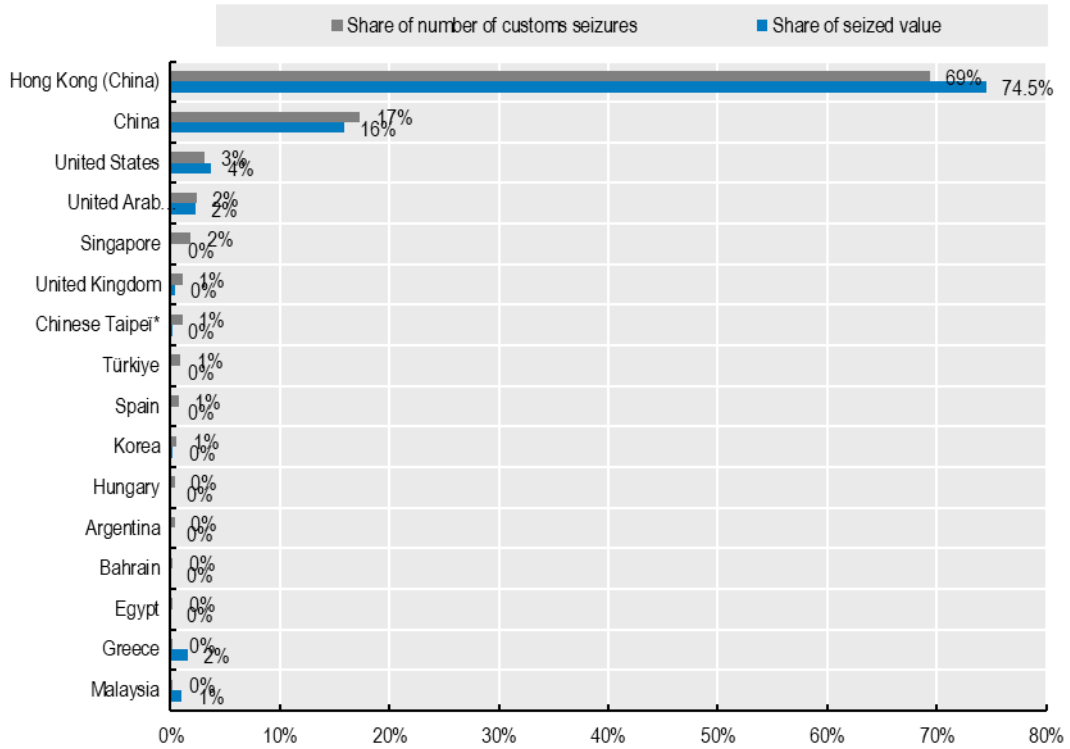
**Figure 2. Top product categories for counterfeit goods that violate Korean IPRs, 2020-2021**



### Where do they come from?

During the 2020-2021, the largest share of fake products seized for infringing Korean intellectual property originated from Hong Kong (China) and China (Figure 3). These economies represented 69% and 17% of customs seizures, respectively. In terms of seized value, Hong Kong (China) and China also accounted for the largest share of counterfeit products infringing Korean IP rights.

**Figure 3. Top provenance economies for seized goods that infringe on Korean IPRs, 2020-2021**

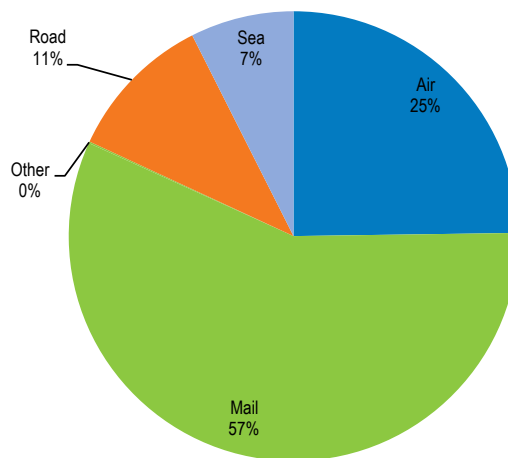


Source: OECD global customs seizures.

**... and how are they shipped?**

Postal services were the preferred transport mode for Korean IPR infringing counterfeit goods over the period 2020-2021, accounting for 57% of all seizures of fake goods infringing Korean IP right holders. It was followed by air transport (25%).

**Figure 4. Conveyance methods of seized goods that infringe on Korean IPRs, 2020-2021**



Note: A change in seizure data collection in 2020-2021 does not allow for distinguishing express courier  
 Source: OECD global customs seizures.



### ***Do people knowingly buy fakes that infringe Korean IPR?***

More than 59% of the goods traded worldwide that infringed Korean IP rights were offered on secondary markets – i.e. they were bought by consumers who knew they were fakes. This share varies among product categories, ranging from 8.2% for household cultural and recreation goods to 73.8% for clothing, footwear, and leather items. It can be noted that the share of the secondary market is lower for counterfeit products that have direct health and safety impacts such as toys and games and cosmetics.

**Table 1. Share of secondary markets for top counterfeit products infringing Korean IPR, 2020-21**

Sector	Share of secondary market (bought knowingly)
Household cultural and recreation goods	8.2%
Perfumery and cosmetics	33.3%
Motor vehicles and motorcycles	43.2%
Watches and jewellery	46.0%
Electrical household appliances, electronic and telecommunications equipment	59.7%
Furniture, lighting equipment, carpets and other manufacturing n.e.c	61.3%
Clothing, footwear, leather and related products	73.8%
<b>Total</b>	<b>59.5%</b>

### **The impacts of trade in goods that infringe Korean IPR on the Korean economy**

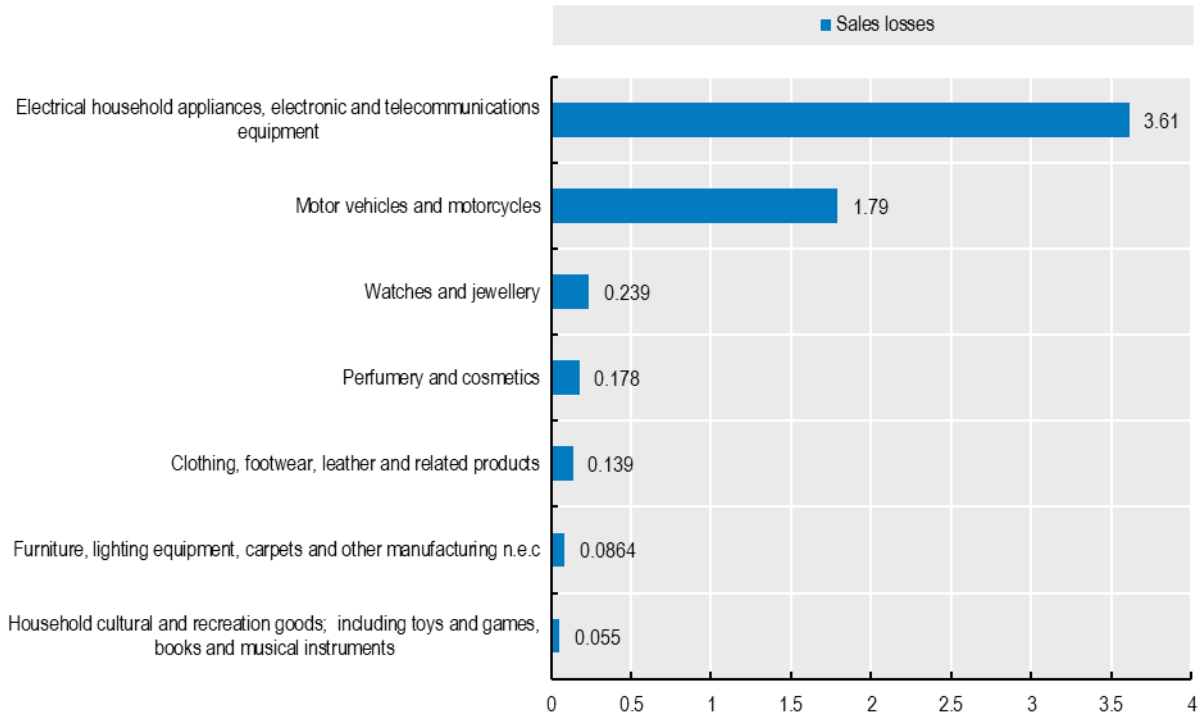
#### ***Lost sales of Korean companies***

In 2021, the total volume of Korean companies' forgone sales due to infringement of their IP rights in global trade amounted to KRW 6 798 billion (USD 6.1 billion), or 0.6% of total sales of Korean companies in that year.

The manufacturing industry for electrical household appliances, electronics and telecommunications equipment was by far the most hit by counterfeiting, representing KRW 4 118 billion (USD 3.6 billion) in 2021. It was followed by automotive spare parts KRW 2 059 billion (USD 1.8 billion). The watchmaking and ICT industries have experienced the highest losses in relative terms with losses representing respectively 21.7% and 13.4% of their sales.

**Figure 5. Top Korean manufacturing industries impacted by IPR infringement in terms of loss of sales, 2021**

In USD billion



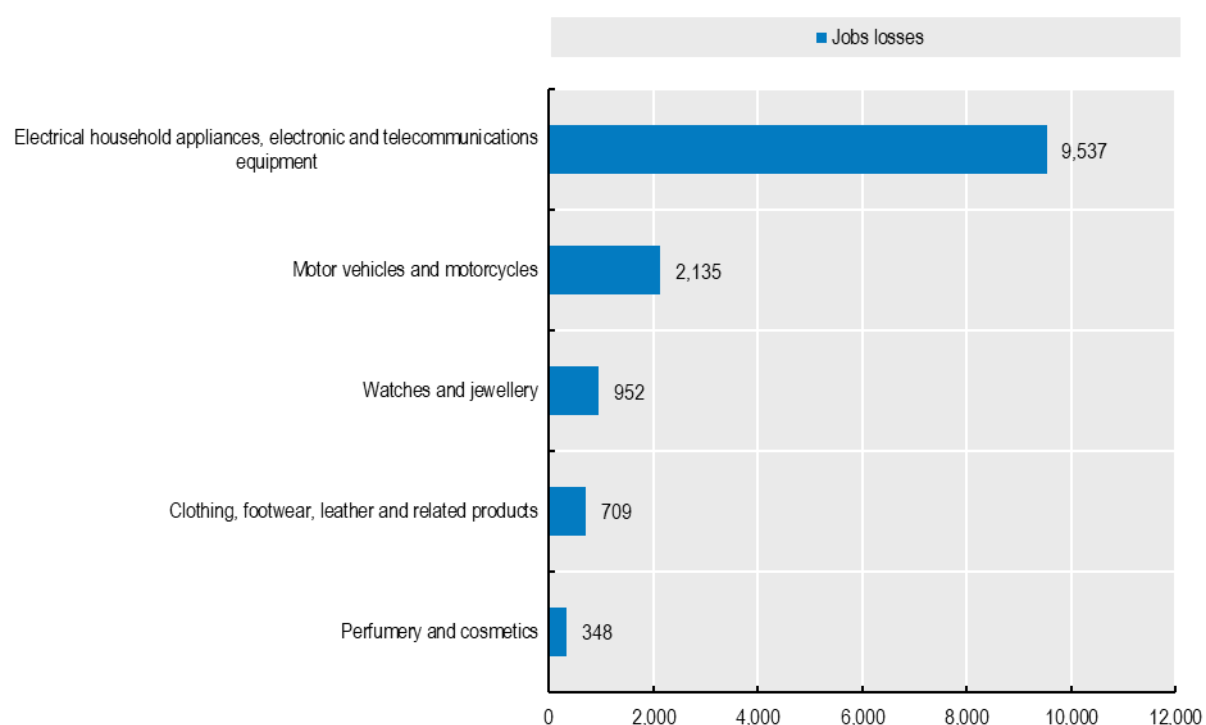
Source: OECD calculations.

### ***Jobs lost in Korea***

The total number of jobs lost in Korea due to the global infringement of their IP amounted to over 13 500 in 2021, equivalent to 0.7% of the total number of employees in the Korean manufacturing sector. These jobs would have been offered in the absence of counterfeiting.

The manufacturing sector of electrical household appliances, electronic and telecommunications equipment experienced the highest losses with more than 9 500 lost jobs in 2021.

**Figure 6. Top Korean manufacturing industries impacted by IPR infringement in terms of job losses, 2021**



Source: OECD calculations.

### ***Foregone tax revenues for Korean government***

Due to lower sales and profits, Korean rights holders pay less corporate income tax to the government. Moreover, fewer employees mean lower personal income tax revenues and social security contributions collected by the Korean government. In 2021, this forgone tax revenue amounted to KRW 1 715 billion (USD 1.57 billion), equivalent to 0.65% of total Korean revenues collected on these two taxes.

**Table 2. Public revenue losses due to infringements of Korean IPR in global trade, 2021**

Type of tax	Value in USD million	Share
Personal income tax and employees' social security contributions	937.02	0.55%
Corporate income tax	633.12	0.91%
Total	1570.14	0.65%

Source: OECD calculations and OECD Revenue statistics 2020, <https://doi.org/10.1787/8625f8e5-en>.

## Combating infringement of Korean IPR: Main challenges and strategies

### ***Boom of ecommerce and small parcels***

Products that violate Korean IPRs are often purchased online, and during the COVID-19 pandemic, the use of the digital environment increased significantly. The use of small parcel delivery, a trend linked to the e-commerce boom, renders the detection of counterfeit products difficult due to inconsistencies and false information in the details of the consignment. There is a need for strengthening cooperation with online platforms, small parcel companies and regular delivery services to address this challenge.

### ***The high costs of IP infringement***

Counterfeiting is highly costly for the Korean economy, Korean rights holders as well as consumers whose health and safety may be threatened by the consumption of fake products that fail to meet certain standards (e.g. Korean ginseng roots or Korean skincare products).

In addition to lost sales and jobs, monitoring and taking action against criminals is a significant burden for Korean IP rights holders, particularly for Korean SMEs.

Awareness campaigns to inform consumers about the risks of fake products and the counterfeiters' modus operandi are crucial. In Korea, awareness campaigns aimed at businesses have been set up. The Korean Intellectual Property Office (KIPO) oversees these awareness campaigns which include a particular focus on SMEs.

### ***The key role of enforcement and co-operation***

Strengthening the capacities of customs officers and raising inspection rates at borders are essential to enhancing anti-counterfeiting efforts. The KIPO is involved in conducting investigations to counteract infringement. It conducts meticulous online and offline investigations, including cracking down on production sites to counteract infringement.

Collaborative efforts have been made, notably between IP offices themselves including the China National Intellectual Property Administration (CNIPA) and between IP and customs officials to support enforcement mechanisms. These collaborations, however, remain weak and represent a main challenge for the future. Collaborative efforts between IP agencies, such as the Korean Intellectual Property Protection Agency (KOIPA), and the industry aimed at enhancing co-operation, information-sharing, and streamlining actions against counterfeit listings – particularly on Asian platforms – need to be strengthened.

The OECD is a unique forum where the governments of 38 democracies work together to address the economic, social, and environmental challenges of globalisation. The OECD is at the forefront of efforts to understand and help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify best practices and work to co-ordinate domestic and international policies.

The OECD Working Party on Countering Illicit Trade (WP-CIT) provides a platform for discussion for government representatives, intergovernmental organisations, and relevant non-governmental stakeholders from academia and industry. The WP-CIT enhances evidence on scale and scope of illicit trade as well as on specific and significant global governance gaps and institutional weaknesses exploited by actors involved in illicit trade. Based on this, the WP-CIT has been supporting the rules-based international trade system by promoting and strengthening trade transparency and security.

