

## 5. Conclusion

This report has quantitatively and qualitatively examined the economic role played by Free Trade Zones, especially in the context of trade in counterfeit and pirated goods. It has done so by analysing the economic rationales for Free Trade Zones from the perspectives of both host countries and industry, and it has conducted an econometric analysis of the role that the FTZs play in spurring trade in counterfeit and pirated goods.

Businesses that operate in zones reap numerous benefits, including savings in taxes and customs duties and being subjected to more flexible labour and immigration rules than those applicable in the customs territories of host countries. Zones also offer lighter regulation and oversight of corporate activities, fewer restrictions on corporate activities, and opportunities to improve distribution of goods to diverse markets.

From the host country perspective, FTZs can and have been used as a tool to promote economic growth, both in developed and developing economies. The potential benefits include attracting foreign investment (particularly in high-tech industries), creating additional jobs and enhancing export performance. In the long term, FTZs are seen as an engine to promote regional development and overall economic modernisation through the improvement of infrastructure, the strengthening of support services and the transfer of technology and knowledge.

However, several arguments have been raised to point to certain disadvantages that FTZs bring to host economies. These include forgone tax revenues due to favourable taxation schemes. FTZs are also often seen as overly permissive, allowing companies operating within them to get away with poor workplace health and safety conditions and to engage in illicit operations due to lax controls and oversight on the part of host countries.

Lightly regulated zones can be particularly attractive to parties engaged in illegal and criminal activities. From the third country, perspective many Free Trade Zones frequently feature among the list of transit points in illicit trade, including trade in counterfeit and pirated goods.

The quantitative analysis presented in this report confirms that FTZs do indeed correlate with higher volumes of trade in counterfeit and pirated goods. These results are statistically robust, taking into account as they do a range of additional factors that could affect the volumes of trade in fakes, including the general level of economic development in the host country, the quality of intellectual property protection, the efficiency of customs and the overall volume of trade.

After controlling for all these variables, the study found that the existence, number and size of FTZs increase the value of counterfeit and pirated products exported by a given economy. The findings indicate that one additional FTZs within an economy significantly increases counterfeiting by 5.9% on average. In other words, keeping all other factors constant, the establishment of a new Free Trade Zone in a given economy is likely to result in higher volumes of trade in fakes departing from this economy. Similarly robust results were found for the links between the value of fake goods exported from that

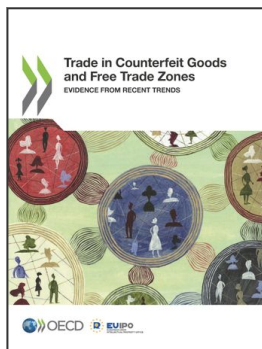
economy and the number of firms operating in Zones and the value of exports from these zones.

The results presented here are robust and statistically significant. They constitute a clear indication that FTZs are a particularly useful tool for counterfeiters, who tend to exploit them regularly in their operations.

These results confirm the anecdotal evidence pointing to the misuse of FTZs to conduct illicit trade, and they should be a prompt for future actions. These steps could include the development of clear guidelines for countries to increase transparency and promote clean and fair trade in FTZs. Developing such soft law will require the involvement of industry members and the key stakeholders in the trade chain.

In addition, more in-depth analysis in three areas will be crucial for developing and deepening enforcement and governance frameworks in order to combat the misuse of FTZs in illicit trade. More quantitative research is also needed to improve the precision of assessments of the role of FTZs in comparison with other economies in trade in counterfeit and pirated goods. It would also be necessary to develop a fuller quantitative picture of counterfeit trade at the national level, and to determine why counterfeit profiles look different for economies that otherwise seem similar. For example, such a study could look at the quantitative relationship between the intensities of counterfeiting and free trade indices, the quality of governance and public sector integrity of.

In the light of the challenges highlighted by the evidence produced for this report, a number of international initiatives have been adopted to address some of the issues created by Free Trade Zones. Further work might be required to close some of the remaining gaps and see how to step up policy action in the future, to ensure that countries can retain the benefits of Free Trade Zones for world trade and economic growth, while applying strong deterrents to criminal activities and reducing the value proposition of FTZs for criminal networks.



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