



National Museum
of American Diplomacy

GLOBAL COUNTERFEIT TRADE

The High Cost of Cheap Goods



The **National Museum of American Diplomacy (NMAD)** offers educators immersive programs that explore the goals and practice of diplomacy, teach diplomatic skills, build global competence, and illustrate how the critical work of American diplomats impacts people's everyday lives. Lesson plans emphasize 21st century skills: creativity and innovation; critical thinking and problem solving; and communication and collaboration. These skills are keys to success for the next generation of global citizens.

The **Diplomacy Simulation Program** is the museum's premier educational tool. In a collaborative learning environment, students step into the shoes of real-life diplomats. The diplomacy simulations are designed for 15-30 participants, plus a teacher/moderator. Students receive a scenario related to a global issue, which could be real-world or hypothetical, current or historic. Within each simulation, there are five to six stakeholder groups (e.g., foreign ministries, NGOs, and international organizations), each with different perspectives and priorities. Students role-play these stakeholders in small teams of three to five. Under set time constraints, the groups are challenged to negotiate a peaceful solution to the crisis in the scenario. Students use the information provided in the simulation packet to develop their group's policy positions and defend or modify their choices in real time.

The simulations have no right or wrong actions or solutions because the process, rather than the end result, is the goal. The learning experience develops organically as the students engage in the simulation. Once the simulation has been completed, students are encouraged to express how their views on diplomacy have evolved as a result of the simulation, and to contemplate how they can apply diplomatic skills to their everyday lives.

To access the complete Diplomacy Simulation Program, including training and subject matter expert videos, please visit diplomacy.state.gov



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Diplomacy Simulations are developed and presented by NMAD as an integral component of the museum's education offerings. This document and all associated materials are intended exclusively for educational use.

Background and Scenario



Student Materials

- 4 Issue Background
- 7 Crisis Map
- 8 Summary of Recent Events
- 9 Worksheet 1: Questions to Think Through
- 11 Worksheet 2: Possible Actions
- 12 Tools for Negotiating Effectively
- 13 Glossary of Terms

When people shop for “**fast fashion**” or “**knockoffs**,” purchasing fake designer bags, shoes, or sunglasses, they probably do not think they are supporting criminal networks and worker exploitation, but they would be wrong. These goods fund illicit global trade that poses a threat to national and international security by weakening economies and placing money in the hands of criminals, potentially including human traffickers and terrorists, who can use established smuggling and **money laundering** operations for their own ends.

Counterfeiting, when a product is sold and marketed as something that it is not, poses a serious threat to legitimate global trade. The trend toward **outsourcing** manufacturing and production processes overseas has created loopholes in legal global commerce and international trade regulations that counterfeiters use to their advantage. The sale of counterfeit goods is estimated at over \$250 billion per year and includes many industries, such as apparel, pharmaceuticals, and electronics. Apparel, such as clothing, shoes, or accessories, comprises 57% of all counterfeit goods seized.

Law enforcement authorities worldwide have found that international criminal networks are involved in **counterfeiting** worldwide. These networks often base businesses and manufacturing facilities in developing countries that have little or no legislation against **counterfeiting** where there is less risk of being apprehended or prosecuted. Counterfeiters often conceal their activities by creating fictitious businesses through which they can launder illegal profits.

The illicit trafficking of counterfeit goods reduces tax income for countries as items are smuggled over borders and sold illegally. Lost taxes means less money for governments to spend on important social services including policing, education, and health care for its citizens. **Tax evasion** enables criminal networks to sell counterfeit goods at lower costs and to bypass quality controls. Groups involved in global counterfeit trade evade product inspections that would regulate the authenticity and safety of goods.

With the widespread availability of inexpensive clothing and other items comes an increased social tolerance toward fake goods. As a result, **counterfeiting** is largely considered a “victimless crime.” The urge to purchase luxury consumer goods at a low price can be strong, regardless of the quality and legal status of the product.

Some well-known corporate apparel companies profit from exploiting existing designs of high-fashion and emerging brands by creating imitations or “knockoffs” of luxury goods to be sold at a fraction of the cost of the genuine products. This allows the manufacturer to avoid the high costs associated with research, design, and marketing. Passing off these counterfeit goods as originals usually constitutes **trademark infringement** by the company that created the imitated goods and a violation of the **intellectual property rights (IPR)** of the designer. Financial losses lead legitimate companies to raise prices on their goods, making them even more expensive and out of reach for the average consumer.

Clothing counterfeiters circumvent trade, environmental, and labor regulations, threatening the environment and public health. They often employ **sweatshop** labor, participate in environmentally irresponsible manufacturing processes, and use low-quality materials. The factories producing counterfeit goods often use toxic dyes and chemicals, dispose of waste illegally, and contribute to air pollution.

Several recent large-scale disasters in the counterfeit garment industry resulted from lack of regulation. Between 2012 and 2015, more than 1,600 garment workers died and many more were injured. In several incidents, barred windows and locked exits trapped workers in burning buildings. The factories are often crowded with many more workers than they are allowed to have - in one case there were over 1,000 employees in a space approved for 250.

The unregulated nature of factory work places employees in vulnerable positions. At particular risk are women and children who often have few legal rights and illegal immigrants who are afraid to speak out for fear of deportation or incarceration. The unsafe working conditions come with low wages of about \$40 per month for skilled workers and long work shifts of 13 or 14 hours are the norm.

These disasters raised awareness of dangerous working conditions in factories and the need for regulation and oversight on businesses known for exploiting workers. Yet much work remains to educate consumers that the money they spend on counterfeit designer apparel contributes to this exploitation and often helps fund organized crime groups.

In this simulation exercise, you will focus on the impact of counterfeit trade on the workers who make the goods. The countries of Beyaria, Ekara, and Grenesia are all under pressure because of the disastrous garment factory fire and resulting scrutiny from the international community. As you try to address the issues in this situation, you will find that various **stakeholders** have different objectives. You will need to find common ground to gain support for improving the working conditions for factory workers and for measures to combat counterfeit trade.

The facilitator or instructor will assign each participant to a delegation representing one of the following **stakeholders**:

1. U.S. Department of State (DOS)
2. World Trade Organization (TRIPS)
3. Society Against Labor Endangerment (SALE)
4. Ekara
5. Beyaria
6. Grenesia

Today's exercise will simulate an international diplomatic meeting called to address a fictionalized instance of a real world problem. There will be a Chair to call the meeting together and moderate. Each of you will be a member of a delegation for one of the following groups:



The U.S. Department of State



World Trade Organization (TRIPS)



Society Against Labor Endangerment (SALE)



The Government of Ekara



The Government of Beyaria



The Government of Grenesia



SUMMARY OF RECENT EVENTS

Recent events in the garment trade have brought the names of three countries into news headlines. Beyaria, a highly developed nation, is home to the Xpensive brand known for its Monrui luxury line and specifically for its handbags. Across an ocean from Beyaria are the neighboring countries of Ekara and Grenesia. Factories in Ekara have contracts to manufacture Xpensive products. A recent manufacturing disaster in Grenesia, Ekara's neighbor, has brought unwanted attention to all three countries.

A factory in Grenesia caught fire and partially collapsed. This factory manufactured Monasa products, a brand that copies Beyaria's exclusive Monrui line. There were almost 900 fatalities in the ensuing tragedy and the workers, including hundreds of children, were trapped on upper floors of the building. Community members as well as international trade and labor organizations had long voiced concerns regarding the factory's safety. After the collapse, officials discovered numerous building code violations, including the addition of multiple stories without necessary permits or inspections.

Labor activists visiting the scene after the fire found Monrui labels in the remains. This led them to suspect that the disreputable factory was also producing the Monrui brand. Beyaria and Xpensive Corporation strongly deny this claim. The Beyarian government references its strict laws against counterfeit items. These laws include severe fines and jail time for those convicted of importing or selling counterfeit goods within its borders.

Suggestions that Beyaria may have been complicit in the conditions leading to the recent tragedy have tarnished Beyaria's international image as a leading proponent of good labor practices and human rights protection. Beyaria supports Xpensive's assertions that the designs and specifications the company sent to factories in Ekara were illegally sold to factories in Grenesia, a clear violation of Xpensive's **intellectual property rights**.

The popularity of the Monrui products has resulted in Beyarian citizens purchasing the counterfeit Monasa brand items, creating a high demand for the 'knockoffs' much to the chagrin of the Xpensive brand and the Beyarian government. Recently, Beyarian border guards apprehended and seized a large consignment of Monasa products headed to Beyaria. This brought the issue to the forefront of governmental attention once again.

Despite pledges from Grenesian government officials after the recent factory fire, nothing has been done to improve working conditions for thousands of employees. Labor activists blame the businesses producing counterfeit goods for pressuring factories to keep prices low, contributing to the poor working conditions. There have been recent protests by workers and activists over safety concerns and low wages. Some advocates, however, credit the industry for providing jobs and lifting people out of poverty despite the low wages. Additionally, many advocates and labor activists assert that legitimate companies like Xpensive also benefit from low costs and the lack of regulatory requirements that developing nations offer. They believe that powerful countries like Beyaria are less concerned with worker safety and human rights than with defending Beyarian corporate interests.

**This is a hypothetical scenario, though it is grounded in real issues and circumstances. The statistics, geography, and details in this exercise should not be read as describing any specific, real world situation.*

Whom do you represent?

What is your overall goal?

What goals (in priority order) would you also like to achieve?

Who can help you?

Who might oppose your approach?

What incentives and disincentives can you offer to persuade others?

What should be your strategy in dealing with the other parties, i.e., with whom should you speak first?

Remember: There is no “right” or “wrong” outcome. This is not a debate in which you need to win the argument. Your goal today is to work together to find a solution everyone can agree upon. This situation requires diplomacy and compromise. Build on common ground. Look for areas where you and the other parties agree and try to expand those. Where you disagree, try to create options that address the other parties’ concerns.

WORKSHEET 2: POSSIBLE ACTIONS

The follow points are possible actions to be taken. Prioritize your top two choices according to your group's policy position. Feel free to add additional actions. You will share your group's prioritized list of actions when the negotiation begins.

- Enforce penalties for factory owners who violate building codes.
- Find economic alternatives for children who work in factories.
- Build a sense of responsibility for human rights.
- Create educational programs that emphasize the hidden costs of buying fast fashion.
- Create educational programs that encourage alternatives to buying fast fashion, detailing what those alternatives are in your list of actions
- Assist countries with the means to achieve the goal of better working conditions for laborers.
- Stop all counterfeit trade goods coming from Ekara and Grenesia.

Other: _____

Other: _____

Other: _____

Clearly Determine Your Position And Agree On Your Strategy:

- Clarify or restate your position if it is mis-represented by one of the other stakeholder groups.
- If during informal discussions you decide your group should change its position, discuss it with the other group members as soon as possible.

Realistically Evaluate Possible Actions Before You Propose Them:

- Are the proposals possible?
- Will they achieve the results you want?
- Watch for unintended consequences.



Analyze Other Groups' Positions:

- Why do they hold that position?
- Why do they oppose or support your proposals?
- Can you apply pressure to make stakeholders re-evaluate their positions?
- Can you offer any incentives to make stakeholders re-evaluate their positions?

Build Alliances:

- Identify which stakeholders share your position and which do not.
- Do not spend all your time trying to persuade others. Listen carefully to other delegates and absorb what they are saying.
- Try to identify common interests and concerns you share with other stakeholders.
- Even if your end goal is different, what can you agree on with others?

Identify Incentives and Disincentives (“Carrots and Sticks”):

- Consider what incentives you can safely offer to other groups.
- Explain to other stakeholders the negative consequences (either direct or indirect) that may follow if they oppose your position.

General Tips*:

- Separate the people from the problem.
- Interests: Focus on interests, not positions.
- Options: Generate a variety of possibilities before deciding what to do.
- Criteria: Insist that the result be based on some objective standard.

*Excerpted from “Getting To Yes”, Roger Fisher and William Ury, Random House Business Books, 1981

ACTA

Anti-Counterfeiting Trade Agreement; a multinational treaty created to establish international standards for intellectual property rights enforcement.

Copyright

A legal ruling granting the creator of an original work, such as publications or films, exclusive right for use and distribution, usually only for a limited time.

Counterfeiting

An imitation intended to be passed off fraudulently or deceptively as genuine.

Fast Fashion

The practice of mass producing high fashion designs quickly in order to capture current fashion trends; typically characterized as fast, low price, and disposable products.

Geographical Indicator

Readily available information consumers receive regarding the origin of a product; where the item was produced; its special characteristics as result of origin.

Intellectual Property Rights

Intellectual property rights are the rights given to persons over the creations of their minds. They usually give the creator an exclusive right over the use of his/her creation for a certain period.

Military Junta

A group of military officers who rule a country after seizing power.

Money Laundering

Allows criminals to transform illegally obtained profit into seemingly legitimate funds.

Non-Governmental Organization (NGO)

A not-for-profit organization that is independent of government and is often involved in human rights, the environment, health, and/or development.

Outsourcing

To obtain goods or services for a business or organization from a source outside of that business or organization.

Patents

A government license or title granting sole protection and ownership for making, using, or selling an invention; granted for a set period of time.

Stakeholder

A person, organization, or government who has an interest in a specific event or issue.

Sweatshop

A shop employing workers at low wages, for long hours, and under poor conditions.

Tax Evasion

The misrepresentation of income and/or profit to authorities in order to reduce tax liability; includes a deliberate misrepresentation of income or entirely unreported income.

Trademark

A symbol, word, or words legally registered or established by use as representing a company or product; ex. Brand names and product logos.

Trademark Infringement

Trademark infringement is the unauthorized use of a trademark or service mark on or in connection with goods and/or services in a manner that is likely to cause confusion, or deception about the source of the goods and/or services.

TRIPS

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international legal agreement between all the member nations of the World Trade Organization (WTO). It sets down minimum standards for the regulation by national governments of many forms of intellectual property as applied to nationals of other WTO member nations. TRIPS was negotiated in 1994 and is administered by the WTO.

World Trade Organization (WTO)

An intergovernmental organization which regulates international trade; oversees the implementation and operation of international trade agreements; hosts negotiations; settles disputes.

Located at the U.S. Department of State in Washington, D.C., the National Museum of American Diplomacy is a public-private partnership between the State Department and the Diplomacy Center Foundation. NMAD's education program connects high school and college students with the world of American diplomacy, increasing their understanding of the skills, practices, and language of diplomats. Through simulations, online resources, and the museum's annual Educator's Workshop, NMAD inspires involvement in foreign affairs and citizen diplomacy.





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