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Illicit Trade

From Fakes to Forced Labour

Evidence of Correlation Between Illicit Trade in Counterfeits and Labour Exploitation

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EVIDENCE OF CORRELATION BETWEEN ILLICIT TRADE IN COUNTERFEITS AND LABOUR EXPLOITATION

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Foreword

Illicit trade in counterfeit goods is not only an economic threat, it is a profound social one. While counterfeiting harms legitimate brands, industries and governments, it also generates hundreds of billions of USD in illegal profits each year. A less visible but equally critical dimension underpins this activity: the exploitation of workers, including forced labour, hazardous child labour and widespread informality.

This report brings new evidence to light. It shows that countries with higher levels of labour exploitation are also those where counterfeit production and export intensity tend to be greatest. These findings reinforce what enforcement authorities increasingly observe in practice: counterfeit supply chains frequently rely on coercive labour practices, unsafe working environments and the vulnerability of workers operating outside any form of legal protection.

By integrating labour-market indicators into the analysis of illicit trade, this study highlights the structural conditions that make both counterfeiting and labour exploitation possible — weak governance, limited oversight, and social and economic vulnerability. These interconnected risks demand integrated policy responses.

Prepared under the auspices of the OECD Working Party on Countering Illicit Trade (WP-CIT), this report aims to support governments in strengthening labour governance, enhancing co-ordination between customs, labour inspections and enforcement bodies, and reinforcing responsible business conduct. Effectively addressing labour abuses linked to counterfeiting is central to ensuring safe and rights-based working conditions and to diminishing the incentives that fuel organised illicit activity.

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Abbreviations

CBP	Customs and Border Protection
DG TAXUD	European Commission's Directorate-General for Taxation and Customs Union
FLETF	Forced Labor Enforcement Task Force
ICE	US Immigration and Customs Enforcement
ILO	International Labour Organization
IOM	International Organization for Migration
SAI	Social Accountability International
TRACIT	Transnational Alliance to Combat Illicit Trade
UFLPA	Uyghur Forced Labor Prevention Act
UNODC	United Nations Office on Drugs and Crime
WCO	World Customs Organization

Executive Summary

Illicit trade in counterfeit goods remains a significant and persistent threat to the global economy, valued at up to USD 467 billion annually. Beyond its economic impact, counterfeiting is closely intertwined with labour exploitation, including forced labour, hazardous child labour and other severe labour-rights violations. Criminal groups operating in illegal activities systematically rely on vulnerable and unprotected workers to minimise production costs and maximise illicit profits, often outside any regulatory framework. This report provides an empirical assessment of the labour-market dimensions of trade in counterfeits, combining descriptive evidence, correlation analysis, and econometric modelling.

The analysis identifies strong and recurrent associations between the intensity of counterfeit trade and weak labour-market conditions. Countries more frequently identified as sources of counterfeit goods tend to display higher levels of child labour – including hazardous forms – , greater prevalence of informal employment, longer working hours, weaker labour protections, and higher incidence of fatal occupational injuries. Positive correlations also emerge between the value of counterfeit exports and the prevalence of forced labour.

Econometric modelling further reinforces these findings. After controlling for income levels, trade openness, and institutional quality, forced labour remains a strong and statistically significant predictor of counterfeit-trade intensity. The model indicates that a one-percentage-point increase in the prevalence of forced labour is associated with an estimated 0.0076% increase in the value of counterfeit trade. Lower minimum-wage protections also correlate with higher levels of counterfeit activity, underscoring the central role of labour exploitation as a cost-reduction strategy for traffickers. Further exploratory tests suggest significant links between high informality and greater exposure to illicit economic activity.

These results confirm that counterfeiting and labour exploitation are not parallel phenomena but mutually reinforcing components of environments characterised by weak governance, limited rule-of-law enforcement, and social vulnerability. Evidence from enforcement agencies – such as clandestine workshops employing migrant workers under coercive conditions – further illustrates how criminal networks exploit labour at multiple stages of illegal supply chains.

Recognising this connection has important policy implications. Strategies to address illicit trade should include labour-market dimensions, and actions against forced labour must also reflect the trade and supply-chain dynamics that enable illicit production. Stronger labour governance, better co-ordination between customs, labour and law-enforcement authorities, and wider use of OECD due-diligence tools can help tackle the underlying conditions that enable counterfeiting and labour exploitation. Emerging regulatory measures – such as the US Uyghur Forced Labor Prevention Act and the EU Forced Labour Regulation – also signal growing international attention to these risks, although they do not directly target criminal networks.

This report highlights the need for integrated responses: combining strengthened labour protections, enhanced trade-enforcement tools, improved data availability, and responsible business conduct. Understanding and acting on the labour-abuse component of trade in counterfeits is crucial not only for worker protection and market integrity, but also for undermining the criminal groups that profit from it.

1 Introduction

Illicit trade in counterfeit goods remains a persistent and significant threat to the global economy. Counterfeiting undermines legitimate business activity, erodes incentives for innovation, and deprives governments of fiscal revenue. According to OECD and EUIPO research, the value of international trade in counterfeit and pirated goods amounts to up to USD 467 billion annually, which represents as much as 2.3% of global trade. Such a scale demonstrates not only the sophistication of the counterfeit trade, but its deep entrenchment in the global economy.

The harm caused by counterfeiting is multifaceted. Consumers face heightened health and safety risks from substandard or dangerous fake goods ranging from medicines to car parts. Rights holders lose sales, brand value, and the returns on innovation. Governments lose tax revenues and face increased burdens on enforcement and public health systems. More broadly, counterfeiting undermines trust in markets and international trade, while also fuelling organised criminal networks that reinvest illicit proceeds into further illegal activity.

At first glance, the drivers behind counterfeiting are similar to those of legitimate businesses: the pursuit of profit and the minimisation of risks. Both legitimate and illegitimate businesses can engage in economic offences such as fraud and tax evasion. The spectrum of criminality, however, is much wider for counterfeiters and can extend well beyond economic misconduct. Organised crime groups, which range from informal criminal alliances to complex transnational enterprises, frequently operate without ethical or legal constraints and across multiple forms of crime, including such violent activities as human and drug trafficking. Their risk calculations are shaped primarily by enforcement conditions, such as the likelihood of seizures, inspections, and penalties. A weak enforcement environment is thus particularly attractive to counterfeiters. This creates additional vulnerabilities in international trade and supply chains.

A critical dimension of this illicit economy concerns labour. In seeking to avoid regulatory costs and maximise profit, counterfeiters often exploit and abuse labour, including through hazardous working conditions, underpayment, and forced labour practices.

While there are recurring concerns related to the use of state-sponsored forced labour in supply chains, or instances in which legitimate firms can fail to uphold labour standards in their supply chains, this report focuses on the use of forced labour by criminal counterfeiters, who operate outside of all regulatory frameworks. By documenting the extent of labour rights violations among counterfeiters, this report strengthens the argument of the urgent need to tackle counterfeiting as both an economic competitiveness issue and a social one.

There is also anecdotal evidence pointing to a darker convergence: smugglers of counterfeit goods may be exploiting the same routes, logistical networks, and facilitators as human traffickers. If confirmed, such an overlap would underscore the seriousness of the issue, suggesting that counterfeiting not only harms consumers and markets, but exacerbates human exploitation.

This report examines the evidence to support these claims. By exploring the intersection between counterfeiting, labour abuses and broader criminal networks, it aims to provide new insights into the social costs of counterfeit trade and to inform policies that safeguard markets, workers, and consumers alike.

2 What do we know so far?

A wide range of literature shows that labour abuse is not confined to one sector of the illicit economy, but is a pervasive feature across multiple illegal markets. The International Labour Organization (ILO) estimates that nearly 28 million people are trapped in forced labour worldwide, generating record profits for exploiters (ILO, 2024[1]). These abuses often occur in the shadows of illicit economies, where opacity, lack of regulation, and criminal control create fertile ground for coercion and exploitation.

Labour abuse acts as a cross-cutting enabler of illicit trade. In illegal mining, reports from the UN and NGOs have documented the presence of child miners and bonded labourers to extract gold, cobalt, and precious stones in unsafe conditions, and which then feed into illicit and sometimes formal supply chains (UNODC (2024[2]). In the fisheries sector, ILO and International Organization for Migration (IOM) studies have shown that trafficked workers are coerced to work for months at sea on vessels engaged in illegal, unreported, and unregulated (IUU) fishing, often without pay and under physical abuse. In agriculture, particularly in high-risk crops such as coca plant or cannabis, there is evidence of child labour and debt bondage in both licit and illicit channels, underscoring the porous boundary between legal and illegal markets when governance is weak (ILO–OECD–IOM–UNICEF, 2019[3]).

The drivers of labour exploitation by criminal groups often mirror those of illicit trade in general: profit maximisation, low probability of detection, and weak enforcement. Exploitative labour serves as a means to cut production costs, reduce overheads, and externalise risks. In markets such as counterfeit production, wildlife trafficking, and narcotics cultivation, the reliance on forced or underpaid labour is not incidental but intrinsic to sustaining competitiveness against lawful operators.

Labour abuse also plays a role in linking different illicit activities (OECD, 2016[4]). For example, trafficked migrants coerced into agricultural labour may later be redirected to street vending of counterfeit goods or drug distribution. Victims of labour exploitation in one illegal economy can be moved into others, creating a fluid workforce for organised crime. This convergence has been observed in West Africa, where victims exploited in artisanal mining have been trafficked into drug smuggling, and in Southeast Asia, where coerced workers in IUU fishing have been forced to participate in smuggling other contraband. It is important to underscore that although many individuals knowingly engage in illegal activities, their involvement occurs under coercive conditions that severely constrain their ability to decline participation.

The literature stresses that labour abuse in illicit markets is not only a human rights violation, but a governance challenge. It undermines fair competition, weakens the rule of law, and erodes trust in global supply chains. Moreover, by fuelling corruption and generating criminal proceeds, labour exploitation entrenches the power of organised crime and hampers development goals.

A substantial volume of factual studies demonstrates that illicit trade and associated criminal economies are closely intertwined with labour exploitation. The ILO estimates that forced labour generates over USD 236 billion in illicit profits annually, reflecting the systemic role of exploitation in criminal business models (ILO, 2024[5]). UNODC's Global Report on Trafficking in Persons (UNODC, 2024[2]) highlights how organised crime groups rely on exploitative labour – through coercion, debt bondage, or fraudulent recruitment – to sustain activities in drugs, cybercrime, and in the production and distribution of counterfeit goods (UNODC, 2013[6]).

While forced labour imposes a substantial cost on the global economy, the ILO has highlighted that its elimination is not only a human-rights imperative but an economic opportunity. It notes that ending forced labour would generate an estimated increase of USD 611 billion in global GDP, along with an additional USD 114 billion in tax revenues (ILO, 2024[5]). These findings reinforce the argument that addressing forced labour can boost economic growth, strengthen labour markets, support fair competition, and contribute to sustainable development.

Several studies provide concrete examples of counterfeiting linked to labour abuse. UNODC has reported on clandestine textile workshops where counterfeit clothing was produced under conditions that involved long hours, no contracts, and unsafe machinery, with children and irregular migrants making up part of the workforce (UNODC, 2013[6]). Europol and EUIPO identified multiple counterfeit cigarette factories in Eastern Europe that were dismantled but which had employed undocumented migrants, some of whom were kept under constant surveillance and prevented from leaving (EUIPO and Europol, 2022[7]). TRACIT has described cases where children were engaged in attaching counterfeit logos to footwear and apparel, while smuggled migrants were coerced into retailing fakes on the streets of southern European cities (TRACIT, 2021[8]). These examples underscore the reality that counterfeiting is often sustained by abusive and systematic labour practices to cut costs and to maximise illicit profits. The Anti-Slavery Collective reports a case involving young men, some of whom had arrived in the United Kingdom by boat less than 24 hours earlier, who were subsequently deployed as spotters in clandestine counterfeiting operations. These individuals were subjected to excessively long working hours and received only GBP 20 per day.

It would be misleading, however, to assume that only criminals are implicated. Empirical evidence shows that legitimate businesses are not immune. The Rana Plaza collapse in 2013, for example, revealed structural negligence in parts of the global garment supply chain; the deaths of over 1 100 workers sparked worldwide outrage and calls for accountability. Murphy (2021[9]) has traced cotton linked to forced labour in Xinjiang to global apparel markets, highlighting governance failures among established brands. Transparentem (2021[10]) has documented how suppliers in South and Southeast Asia systematically misled social auditors to conceal forced-labour practices. Such findings, although scattered across case studies, demonstrate persistent vulnerabilities in globalised supply networks.

In contrast to illicit operators, legitimate businesses have access to structured frameworks to prevent labour exploitation and demonstrate compliance. The OECD Guidelines for Multinational Enterprises (OECD, 2023[11]) and the OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2018[12]) offer step-by-step processes for identifying, preventing, and mitigating risks linked to forced labour. Sector-specific instruments, such as the one for garment and footwear issued by the OECD (OECD, 2017[13]), provide tailored recommendations on purchasing practices, subcontracting, and recruitment. The ILO Tripartite Declaration on Multinational Enterprises and Social Policy (ILO, 2022[14]) reinforces international labour standards and encourages worker representation and social dialogue. Private certification schemes also play a role: the SA8000® standard (SAI, n.d.[15]) sets auditable criteria on child labour, working hours, and health and safety, while the Fair Labor Association's Workplace Code of Conduct (Fair Labor Association, n.d.[16]) requires member companies to maintain minimum labour standards across suppliers. Moreover, the OECD's system of National Contact Points (NCPs) provides a unique non-judicial grievance mechanism that offers transparency and accountability when allegations of non-compliance arise; to date, over 700 cases have been recorded.

These tools enable legitimate businesses – particularly those operating under strong governance regimes – to take actions to reduce exposure to labour abuse. The key challenge lies in ensuring their robust implementation and monitoring, particularly in high-risk areas and at lower tiers of supply chains (Jaax and van Lieshout, 2025[17]). The Anti-Slavery Collective (TASC) has highlighted through multiple case studies, however, that labour exploitation can persist throughout the entire counterfeit supply chain – from production and assembly to distribution and retail.

A distinct but related body of literature documents the nexus between counterfeit trade and human trafficking. UNODC (2010[18]) reported cases in which irregular migrants smuggled into Europe were forced to sell counterfeit handbags and DVDs on the streets to repay traffickers. Europol and EUIPO (2020[19]) demonstrated that organised crime groups engaging in intellectual property (IP) crime often run "poly-criminal" operations, with people trafficking, smuggling, and counterfeiting sharing the same logistics, facilitators, and financial channels.

Concrete cases reinforce this convergence. In Spain and Italy, law-enforcement authorities have uncovered networks that coerced West African migrants into street vending of counterfeit luxury goods. In Southeast Asia, the Mekong Club (2022[20]) found that trafficking routes used to move counterfeit pharmaceuticals also carried victims of forced labour, reflecting the operational efficiency of using shared infrastructure for multiple illegal commodities. (EUIPO and Europol, 2022[7]) has documented instances where victims of human trafficking were exploited in the same factories producing counterfeit cigarettes.

These findings confirm that labour exploitation in counterfeiting cannot be examined in isolation from wider trafficking dynamics. Organised crime groups often perceive people as both a commodity (trafficking victims) and as a resource (exploited workers), with counterfeiting providing a ready market for coerced labour. Addressing this nexus requires integrated responses: combining anti-trafficking measures, customs enforcement, labour inspections, and IP crime investigations to dismantle the criminal infrastructures that sustain both.

The reviewed evidence points to a growing awareness of the close linkages between labour exploitation and illicit trade. While much of the evidence is qualitative or anecdotal, it consistently underlines how exploitative labour practices reduce production costs for illicit operators, distort markets, and weaken enforcement of labour and trade standards.

The recognition of the distortive effects of the use of forced labour has translated into policy and, in some cases, concrete regulatory initiatives designed to address these risks at the border. These initiatives do not target the use of forced labour by criminal networks. Instead, they focus on preventing the placement on the market of goods produced with forced labour more broadly – whether through state-sponsored forced labour – making the use of forced labour in the supply chain illegal as in the case of the US Uyghur Forced Labor Prevention Act (UFLPA) – or across all economic operators, as envisaged under the EU Forced Labour Regulation.

A prominent initiative is the UFLPA (Box 2.1), which was enacted in December 2021 to prevent goods made with forced labour from entering the United States and to hold accountable those involved in the systematic use of forced labour in the Xinjiang Uyghur Autonomous Region (XUAR) of the People's Republic of China (hereafter "China"). The UFLPA created a rebuttable presumption that goods linked to XUAR China Xinjiang province or entities included on the UFLPA Entity List are prohibited from importation due to their being produced wholly or in part with forced labour and therefore barred from entry into the United States. US Customs and Border Protection enforces the prohibition through detention, supply-chain documentation checks, and scientific verification. Importers can obtain release with an exception by meeting certain requirements, including demonstrating that the goods are not produced with forced labour.

Box 2.1. The US Uyghur Forced Labor Prevention Act (UFLPA)

The UFLPA (Public Law 117-78) strengthens the longstanding US prohibition on imports made with forced labour (Section 307 of the Tariff Act of 1930) by creating a rebuttable presumption that any goods mined, produced, or manufactured wholly or in part in the Chinese Xinjiang Uyghur Autonomous Region (XUAR), or by entities on the UFLPA Entity List, are made with forced labour and therefore prohibited from entry unless the importer proves otherwise with clear and convincing evidence for an exception. The law also requires importers seeking an exception to abide by the DHS-led Forced Labor

Enforcement Task Force (FLETF) and US Customs and Border Protection guidance related to due diligence, supply-chain tracing and management measures.

The UFLPA was enacted on 23 December 2021, following region-wide Withhold Release Orders on Xinjiang cotton and tomatoes in 2020-21. The UFLPA mandated that the inter-agency Forced Labor Enforcement Task Force (FLETF), chaired by the United States Department of Homeland Security (DHS), publish an enforcement strategy (UFLPA Strategy) and a public "UFLPA Entity List" of entities that meet certain criteria outlined in the law. The process institutionalised ongoing stakeholder engagement and iterative adjustments to enforcement priorities and the Entity List.

US Customs and Border Protection enforces the rebuttable presumption to all goods produced, wholly, or in part, in the XUAR or by entities on the UFLPA Entity List (including via third-country processing) The UFLPA Entity list is maintained and expanded via Federal Register notices.

The FLETF identifies high-priority sectors for risk-based enforcement. Initially the UFLPA Strategy, published on 17 June 2022, identified apparel, cotton and cotton products, silica-based products (including polysilicon), tomatoes and downstream products as high-priority sectors. Subsequent updates to the UFLPA Strategy added aluminium, copper, caustic soda, lithium, polyvinyl chloride (PVC), red dates , seafood and steel.

US Customs and Border Protection (CBP) applies a risk-based approach which combines targeting, supply chain documentation scrutiny, and scientific testing. CBP may detain, exclude, or seize shipments, and can impose civil penalties for UFLPA violations.

Importers who have merchandise detained or excluded may apply for an exception to the UFLPA to demonstrate that their merchandise is admissible into US commerce. In order to demonstrate that an exception is warranted, importers must follow the requirements of the UFLPA, outlined through guidance from DHS and the FLETF which include, among other requirements, complete information on their supply chain (from the raw materials stage to the final products); provide purchase, production and transportation records evidencing that the goods are not linked to XUAR/Entity-List inputs; fully and completely respond to CBP requests for information; and demonstrate with clear and convincing evidence that their goods were not produced wholly or in part with forced labour. CBP's Operational Guidance specifies evidentiary expectations. A public dashboard reports shipments reviewed and enforcement actions by commodity and origin, allowing external monitoring of trends and risk.

By shifting the burden of proof to importers and operationalising presumptive bans in high-risk supply chains, the UFLPA reduces the expected payoff of trafficking goods made with forced labour, incentivises upstream traceability, and disrupts common obfuscation tactics (e.g. third-country trans-shipment or blending of inputs). Continued updates to priority sectors and the Entity List, paired with data-driven targeting and forensic testing, are designed to limit displacement across products and routes.

UFLPA enforcement extends beyond direct China-origin shipments to products assembled elsewhere that incorporate inputs sourced from the XUAR or UFLPA Entity list. Documenting complex, multi-tier supply chains remains challenging and compliance costs can be significant. Periodic strategy updates aim to address evolving risks and the FLETF and CBP publish guidance and information to support importer compliance.

Beyond the United States, several countries have introduced instruments that aim to prevent the importation of goods produced with forced labour. For example, Canada has adopted the Fighting Against Forced Labour and Child Labour in Supply Chains Act (2023) which requires reporting on measures taken to prevent and reduce risks. The European Union has adopted a regulation (European Parliament and Council, 2024[21]) on prohibiting products made with forced labour on the EU market that combines investigative powers of national authorities and the European Commission (Box 2.2). In addition, several

countries – including Germany, France and Norway – have enacted corporate due diligence legislation obliging companies to identify, mitigate, and report on human rights risks in their supply chains. These policy instruments, however, diverge in their scope, enforcement mechanisms, and evidentiary thresholds. In certain cases, the onus is placed on importers to demonstrate compliance, whereas in others the emphasis rests on transparency and corporate reporting. Nevertheless, these measures illustrate an emerging policy trend towards integrating labour rights considerations into trade regulation and border management.

Box 2.2. The EU Regulation on prohibiting products made with forced labour

The European Union adopted the Forced Labour Regulation in December 2024 and its rules will begin to apply as of December 2027. The Regulation prohibits products made with forced labour from being placed or made available on the EU market or exported from it. It also seeks to contribute to the fight against forced labour by ensuring that goods in the EU's internal market comply with international labour standards on forced labour, while improving the functioning of the internal market.

Unlike other measures focusing on specific regions or sectors, the EU Regulation is designed to have a horizontal application. It covers all products, irrespective of their origin, including both imported and domestically produced goods.

Investigations will begin in December 2027 and will be carried out by national competent authorities for cases of forced labour on their respective territories and by the European Commission for cases in third countries. The relevant authority will assess suspected cases-based allegations and evidence submitted by stakeholders or other relevant sources. Where forced labour is established, authorities will order the withdrawal and disposal of products already on the market and prohibit their further placement. Customs authorities will have the responsibility to enforce bans at the border.

Enforcement is based on a risk-based approach that prioritises investigations taking into consideration the scale and severity of the suspected forced labour, the volume of products placed or made available on the EU market, and the proportion of the product suspected to have been made with forced labour.

3 At first glance

To strengthen the argument about a link between illicit trade in counterfeits and labour exploitation, it is essential to rely on quantitative evidence. Anecdotal reports and case studies provide useful context, but they cannot establish broader patterns or correlations across economies. Only by employing systematic data can we assess whether countries with weak labour standards, higher incidences of exploitation, or deficient enforcement are those more likely to be involved in the production or transit of counterfeit goods.

The general concept underpinning the analysis is straightforward. The underlying premise is that more flexible or weakly enforced worker protections, coupled with unsafe and exploitative working conditions, may create an enabling environment for illicit trade activities. In such environments, criminals can minimise costs by disregarding labour rights and occupational safety, while simultaneously exploiting institutional weaknesses that reduce the risk of detection or punishment. The quantitative analysis therefore aims to test whether measurable indicators of labour exploitation and weak labour governance are statistically associated with indicators of counterfeiting.

3.1. Measuring exploitative and informal labour practices

There are various levels of labour exploitation. Some indicators reflect systemic governance failures and the overall degree of respect for law in a country, while others point to specific instances of abuse, such as child labour or forced labour. One useful way to conceptualise this is through Skrivankova's (2010[22]) definition of the continuum of exploitation, which ranges from decent work to the most severe forms such as forced labour and human trafficking. At the outset, it is difficult to select a single dimension that might best capture the relevant dynamics. For this reason, the present analysis considers a broad set of variables, acknowledging that labour exploitation manifests in different forms depending on institutional and economic contexts.

The first group of indicators measures different forms of labour exploitation. These indicators collectively capture the most severe forms of labour exploitation and serve as proxies for environments where criminal networks can thrive by exploiting vulnerable groups. There are three proxies in this group, all sourced from the ILOSTAT database of the ILO.

- *Child labour*. This variable measures the proportion of children engaged in economic activities that are classified as child labour, according to the International Labour Organization (ILO) definitions. It is expressed as a percentage of the total population of children aged 5-17 years. The indicator captures work that is mentally, physically, socially, or morally harmful to children, or that interferes with their schooling. Data are collected from national household surveys and harmonised by the ILO to ensure comparability across countries and years.
- *Children in Hazardous Labour*. This variable measures the proportion of children engaged in work that is considered hazardous according to ILO standards. Hazardous labour includes tasks or conditions that are likely to harm the health, safety, or moral development of children — e.g. work involving dangerous machinery, exposure to harmful substances, extreme temperatures, long hours, or night shifts. It is usually expressed as a percentage of the total child population aged

5-17 years. Data are derived from national household surveys and harmonised by the ILO to ensure cross-country comparability.

- *Forced Labour*. This variable measures the prevalence of individuals engaged in forced labour, as defined by the ILO. Forced labour refers to all work or service that is extracted from a person under threat of penalty and for which the person has not offered themselves voluntarily. This includes situations of coercion, deception, restriction of movement, withholding of wages or identity documents, and physical or sexual violence. The indicator is expressed as the number of victims and converted for analytical purposes into a percentage of the active population. Data are compiled by the ILO from national surveys, administrative records, and specialised studies, and are harmonised to ensure comparability across countries and time periods.

A second set of indicators captures occupational safety risks, which may also serve as indirect proxies for exploitative labour environments. High fatality rates may point to unsafe workplaces, weak inspections, and minimal employer accountability – conditions that overlap with environments conducive to counterfeiting operations. There is one proxy in this set, sourced from ILOSTAT.

- *Fatal injuries*. This variable measures the incidence of work-related fatal injuries, defined as any occupational injury resulting in death occurring in the course of work or while performing work-related duties. The indicator is typically expressed as the number of fatalities per 100 000 workers, covering employees and, in some cases, self-employed workers. Data are collected from national administrative records, labour inspections, and insurance schemes, and then harmonised by the ILO to improve international comparability.

The last set of indicators relates to the institutional framework governing labour relations and the degree of rule of law. These proxies assess whether strong legal frameworks and functioning social dialogue mechanisms mitigate the risks of labour exploitation and, by extension, involvement in illicit trade. There are four proxies in this set.

- *Collective bargaining*. This variable measures the proportion of employees whose working conditions are regulated by a collective agreement between employers (or employers' organisations) and workers' organisations, in line with ILO definitions. It reflects the extent of collective bargaining coverage within the workforce and serves as an indicator of the strength of social dialogue and labour relations in a country. The measure is expressed as a percentage of all employees and is derived from national labour force surveys or administrative records. Data are harmonised by the ILO to allow cross-country and time-series comparability.
- *Informal employment*. This variable measures the proportion of employed persons whose jobs are not covered by national labour legislation, income taxation, social protection, or entitlement to employment benefits. It includes both self-employed workers and employees in informal jobs, whether in the formal sector, informal sector, or households. The indicator is expressed as a percentage of total employment and is based on data from national labour force surveys or population censuses. The ILO harmonises these figures to ensure cross-country and time-series comparability.
- *Trade union rate*. This variable measures the proportion of employees who are members of a trade union, based on national definitions. It reflects the degree of unionisation within the workforce and serves as an indicator of workers' capacity for collective representation. The measure is expressed as a percentage of all employees and is derived from national labour force surveys, administrative records from trade unions, or labour ministries. The ILO harmonises the data to enhance comparability across countries and over time.

3.1.1. Limitations of the data

Several caveats must be acknowledged. First, not all countries that appear in customs seizure records are producers of counterfeit goods. Some countries serve primarily as transit hubs, leveraging logistics infrastructure that is exploited by counterfeiters. Producers are predominantly concentrated in Asia, but transit economies are geographically dispersed, ranging from advanced trading hubs to developing economies. This heterogeneity makes it difficult to assign labour exploitation dynamics directly to counterfeiting outcomes.

Second, transit activities themselves can be labour-intensive. Counterfeiters often use warehouses in transit points to relabel, repackage, or assemble counterfeit products. Such activities – although occurring outside the production stage – can still involve abusive or unsafe labour practices. As a result, transit economies may appear prominently in counterfeiting indicators, while also facing risks of labour exploitation.

Third, other structural factors – such as weak IP enforcement, corruption, broader deficiencies in rule of law, or policies that encourage the use of forced labour – may be correlated with labour exploitation and with counterfeiting. This overlap may generate correlations among the explanatory variables, which could make it difficult to identify individual effects. The primary aim of this exercise is descriptive: documenting statistical relationships and patterns in the data. Therefore, coefficients should be interpreted with caution as they may capture correlations rather than causal effects.

3.2. Quantifying the scope and scale of counterfeit trade

The labour-related indicators are combined with OECD/EUIPO data on counterfeiting, which relies primarily on customs seizure data collected from:

- the World Customs Organization (WCO),
- the European Commission's Directorate-General for Taxation and Customs Union (DG TAXUD), and
- the United States Department of Homeland Security (DHS), including CBP and ICE.

From these sources, three proxies of counterfeiting are used:

- The number of seizures by provenance economies. This index is based on the OECD customs seizure dataset. See Annex A of OECD/EUIPO (2025[23]) for the methodology used to construct this dataset.
- The GTRIC-e score, which is based on OECD measures of the relative likelihood an economy exports counterfeit goods. It is a weighted indicator combining (i) the absolute value of counterfeit and pirated exports and (ii) their share in the economy's total trade. For example, although Benin's absolute value of counterfeit exports is low, the high proportion within its total exports results in a high score. In general, economies with high GTRIC-e scores either export large absolute values of counterfeit goods or have a high share of such goods in their total exports.
- The estimated value of counterfeit goods by provenance economies results in a methodology developed by the OECD which is based on the GTRIC-e described above. The estimated values of fakes used in this study are derived from OECD/EUIPO (2025[23]).

Together, these measures provide a comprehensive picture of economies' roles in counterfeiting, which can then be analysed alongside labour exploitation and governance indicators.

3.3. Patterns and links between labour abuse and counterfeiting

As a first step, simple correlations are presented between various proxies for labour market conditions and measures of illicit trade. These correlations provide an initial indication of whether a positive or negative association exists between the variables under consideration, without implying any direct causal relationship.

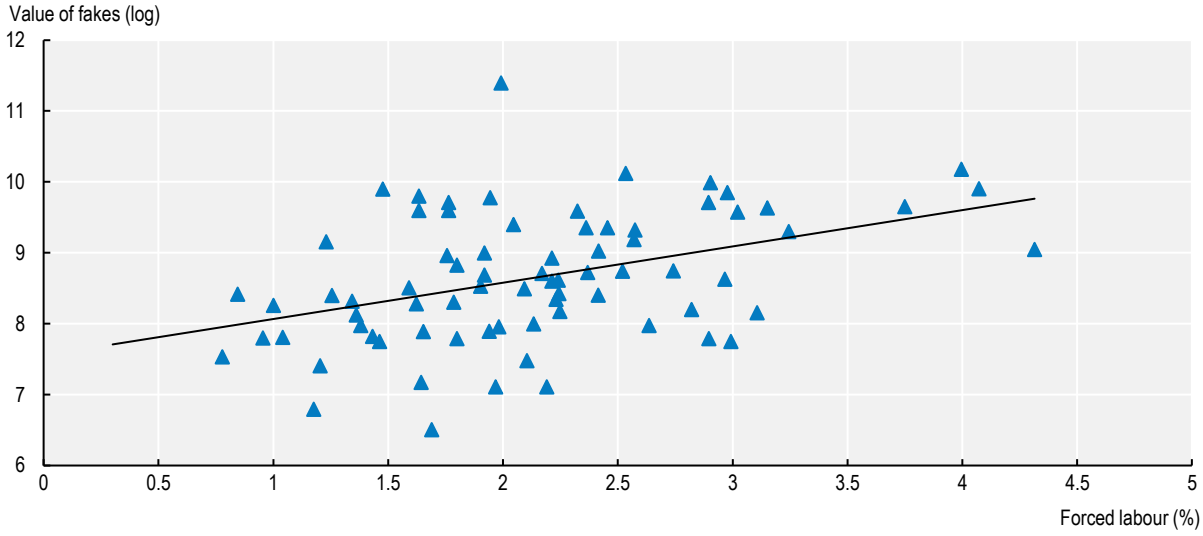
3.3.1. Illicit trade and labour exploitation

Forced labour

The analysis reveals a clear positive correlation between the estimated value of counterfeit goods exported by a country and the number of victims of forced labour (Figure 3.1) reported by this country. In other words, countries with higher estimated values of fakes are more frequently associated with higher levels of forced labour.

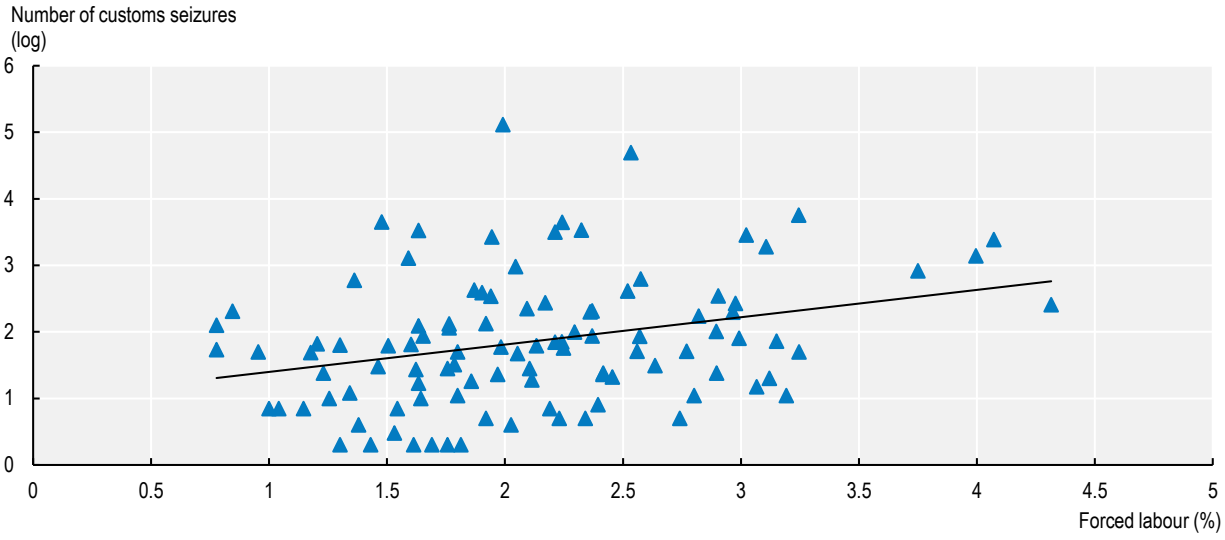
As shown in Figure 3.2, a similar relationship emerges when examining enforcement data. Specifically, the number of seizures identifying the economies of provenance for counterfeit goods also shows a positive correlation with the prevalence of forced labour.

Figure 3.1. Correlation between the value of fakes (in log) and the number of forced labour victims (in log)



Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient = 0.42.
Source: ILOSTAT and OECD global customs seizures.

Figure 3.2. Correlation between the number of seizures (in log) and the number of forced labour victims (in log)

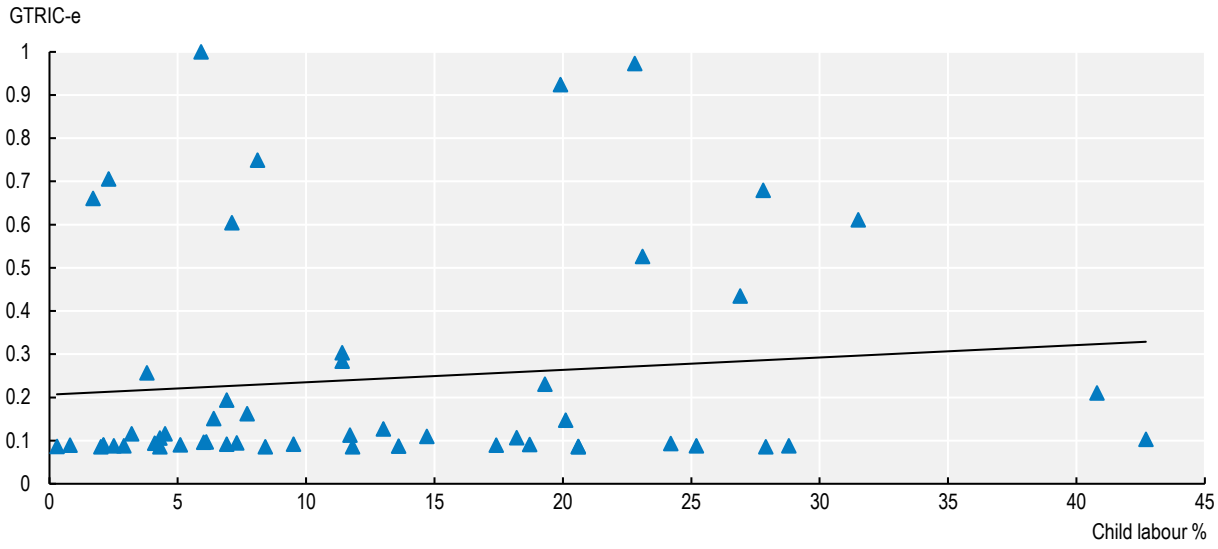


Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient = 0.38.
Source: ILOSTAT and OECD global customs seizures.

Child labour

The analysis reveals a positive correlation, albeit moderate, between the likelihood of a country being identified as a source of illicit trade and the prevalence of child labour. In other words, countries with a higher probability of being associated with illicit trade activities also tend to report higher percentages of child labour. Although the relationship is not strong, this relationship suggests that underlying socio-economic and governance factors may simultaneously drive both the incidence of illicit trade and the exploitation of child labour.

Figure 3.3. Correlation between child labour and GTRIC-e

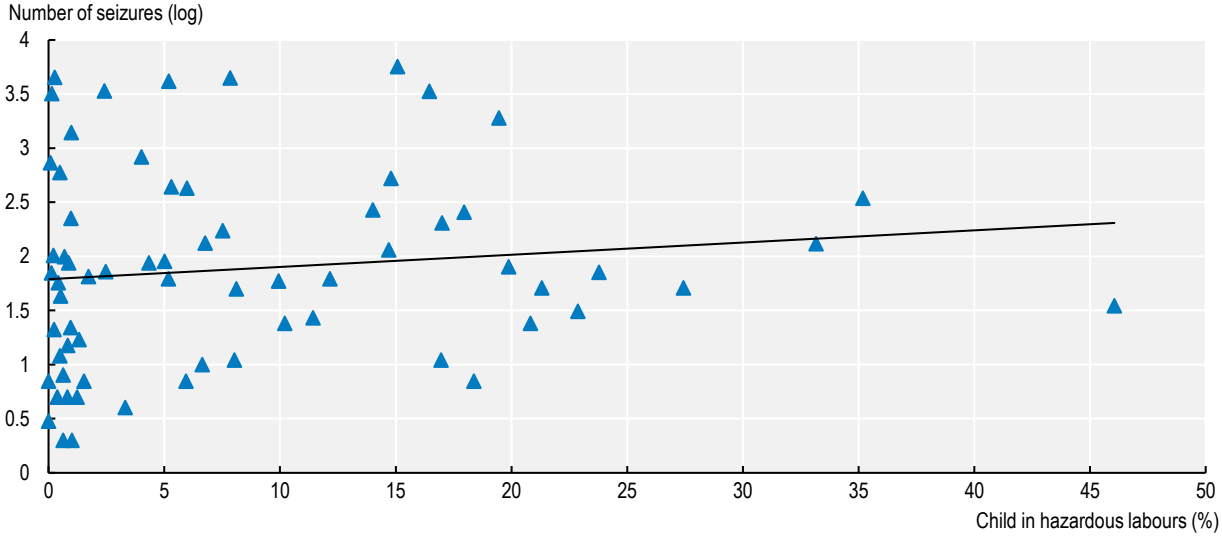


Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient = 0.11.
Source: ILOSTAT and OECD global customs seizure.

Children in hazardous labour

The analysis reveals a positive correlation between the number of seizures in which a country is identified as a source of illicit trade and the percentage of children engaged in hazardous labour. In other words, countries more frequently cited as origins of illicit trade tend to report higher proportions of children involved in work that poses significant risks to their health, safety, or moral development.

Figure 3.4. Correlation between children in hazardous labour and number of seizures



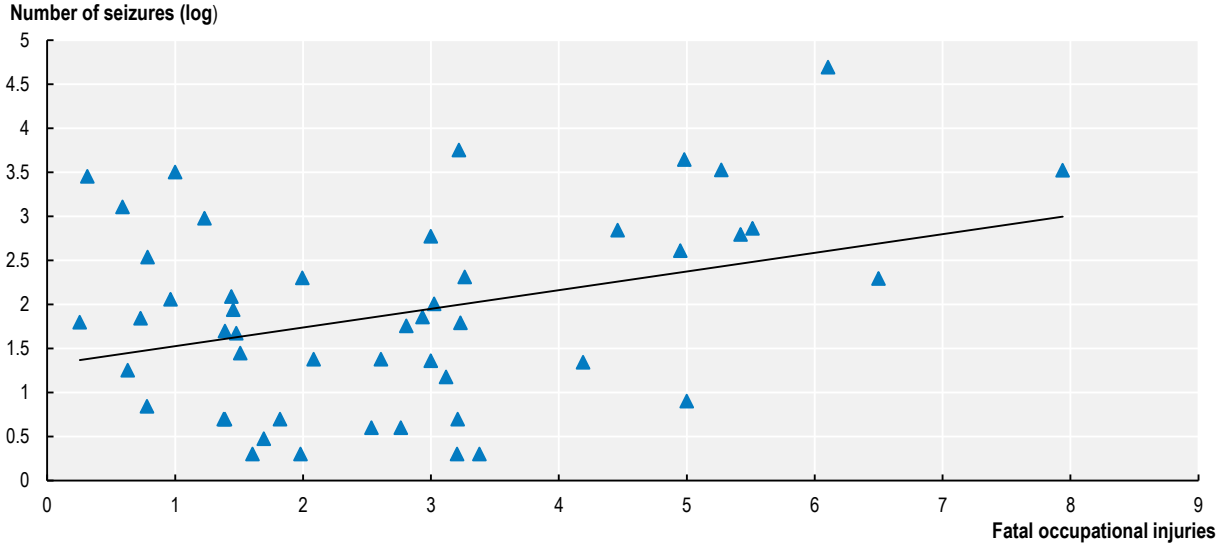
Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient=0.12.
Source: ILOSTAT and OECD global customs seizure.

3.3.2. Illicit trade and labour safety

Fatal occupational injuries

Data indicate a positive correlation between the number of seizures linked to a country as a source of illicit trade and its rate of fatal occupational injuries per 100 000 workers, suggesting that countries more frequently tied to illicit trade also face higher workplace fatality risks.

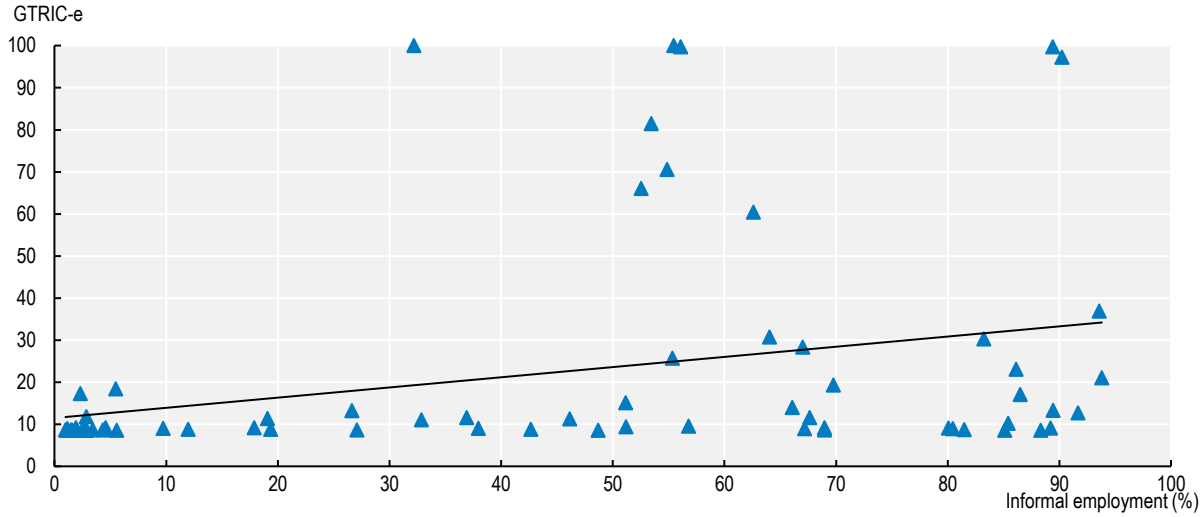
Figure 3.5 Correlation between number of seizures (in log) and fatal occupational injuries per 100 000 workers



Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient=0.34.
Source: ILOSTAT and OECD global customs seizure.

The comparison between Figure 3.5 and Figure 3.6 suggests that the correlation between injuries and the monetary value of seizures is considerably weaker than that between injuries and the overall number of seizures. This pattern may imply that injuries are particularly associated with the production of lower-value counterfeit goods, perhaps reflecting more hazardous or less controlled manufacturing environments characteristic of low-end counterfeit production.

Figure 3.6. Correlation between value of fakes (in log) and fatal occupational injuries per 100 000 workers



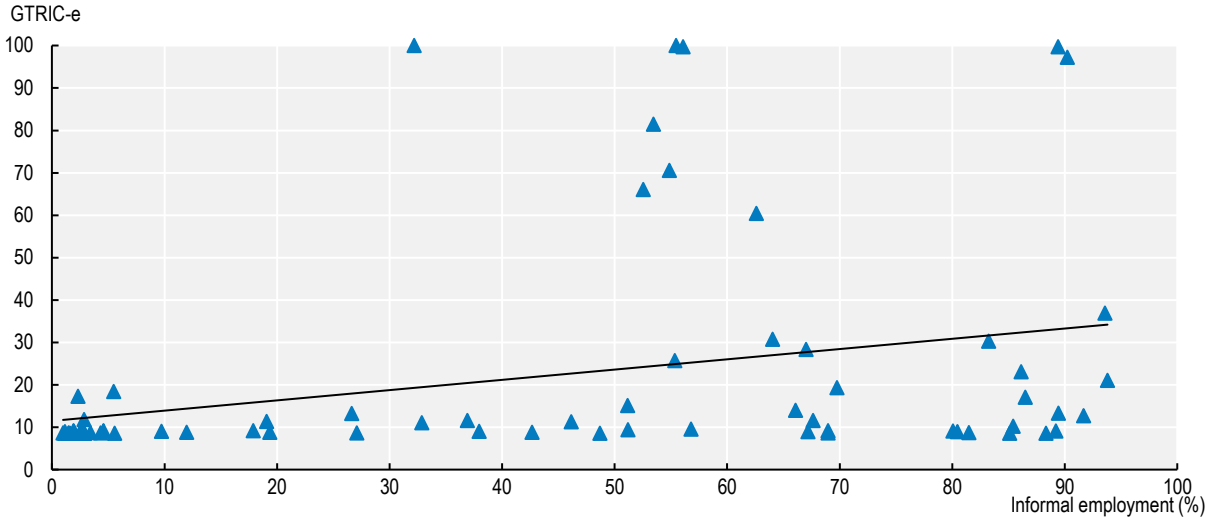
Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient=0.1.
Source: ILOSTAT and OECD global customs seizures.

3.3.3. Labour rights and protection

Informal employment

The analysis shows a positive correlation between the likelihood of a country being identified as a source of illicit trade and the percentage of informal employment within its labour market. In other words, countries with a higher probability of being associated with illicit trade tend to report greater shares of workers employed in informal, unregulated, or unprotected jobs.

Figure 3.7. Correlation between GTRIC-e and informal employment

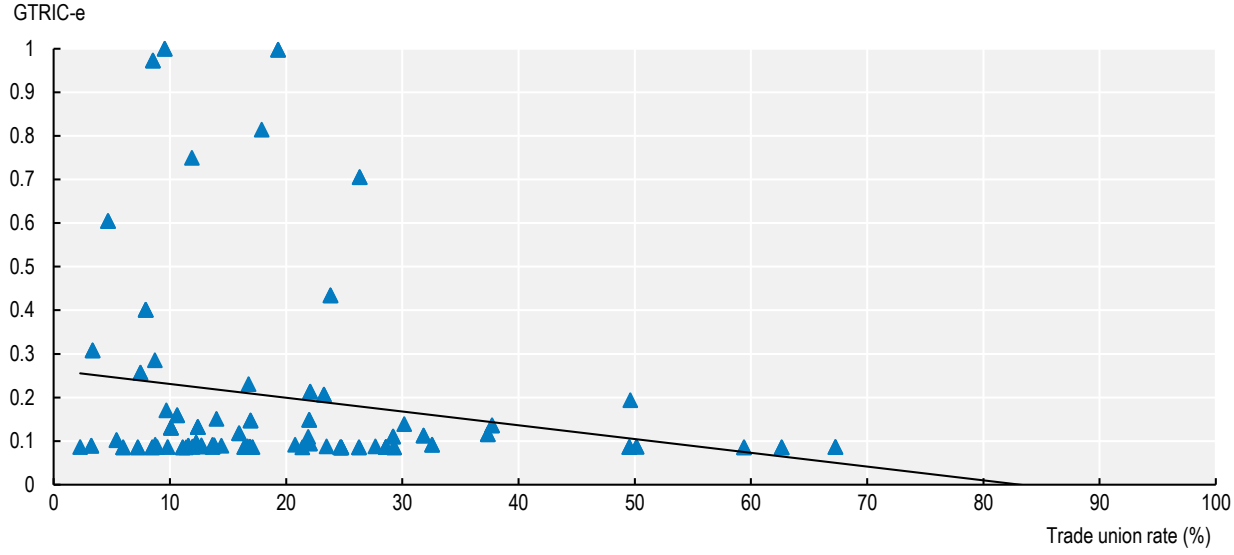


Note: Each point corresponds to one country for 2021. Correlation coefficient=0.32.
Source: OECD global customs seizure.

Trade union membership rate

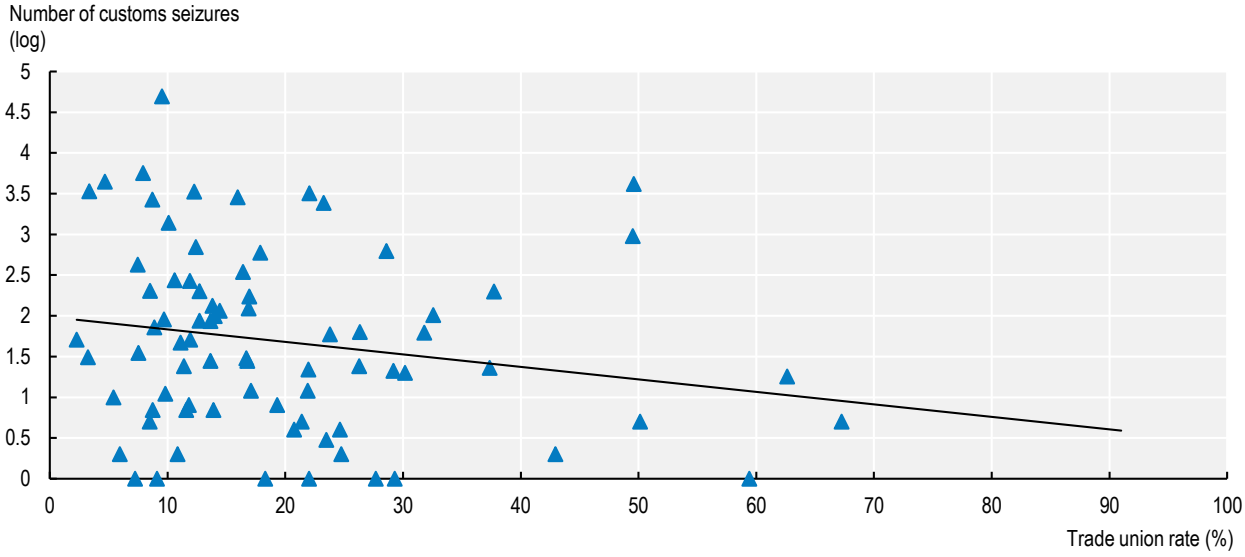
The analysis reveals a negative correlation between the likelihood of a country being identified as a source of illicit trade and its trade union membership rate (Figure 3.8). In other words, countries with a higher probability of being associated with illicit trade activities tend to have lower levels of trade union representation within their workforce. Figure 3.9 also indicates a negative correlation between the number of seizures identifying countries as provenance of counterfeits and countries' presence of trade union.

Figure 3.8. Correlation between GTRIC-e and trade union rate



Note: Each point corresponds to one country for 2021. Correlation coefficient=-0.2.
Source: ILOSTAT and OECD global customs seizure.

Figure 3.9. Correlation between number of seizures (in log) and trade union rate

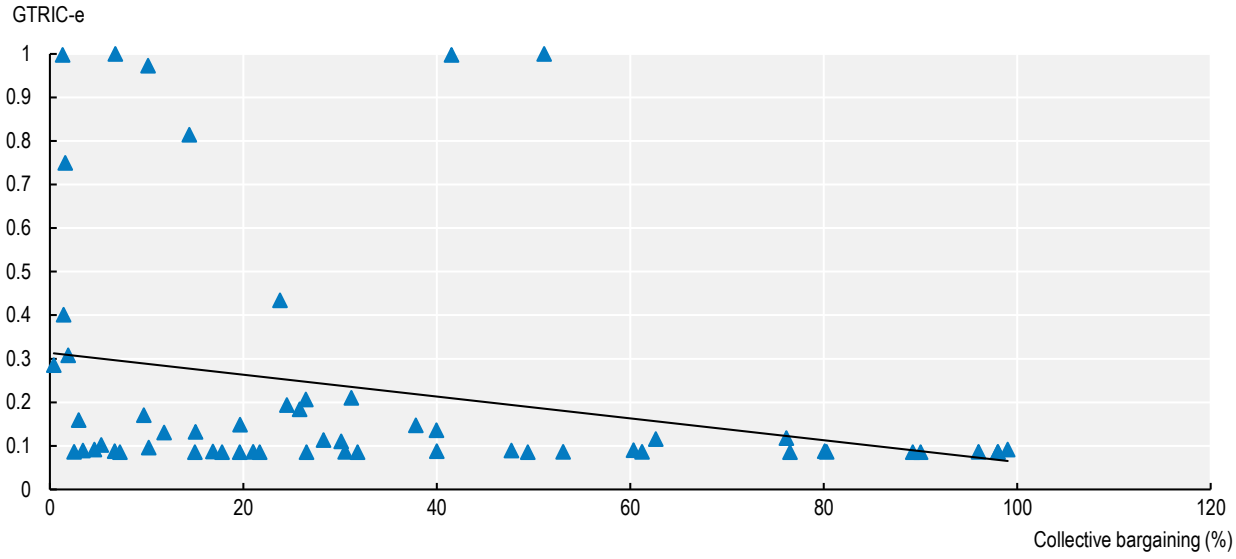


Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient=-0.19.
Source: ILOSTAT and OECD global customs seizure.

Collective bargaining coverage

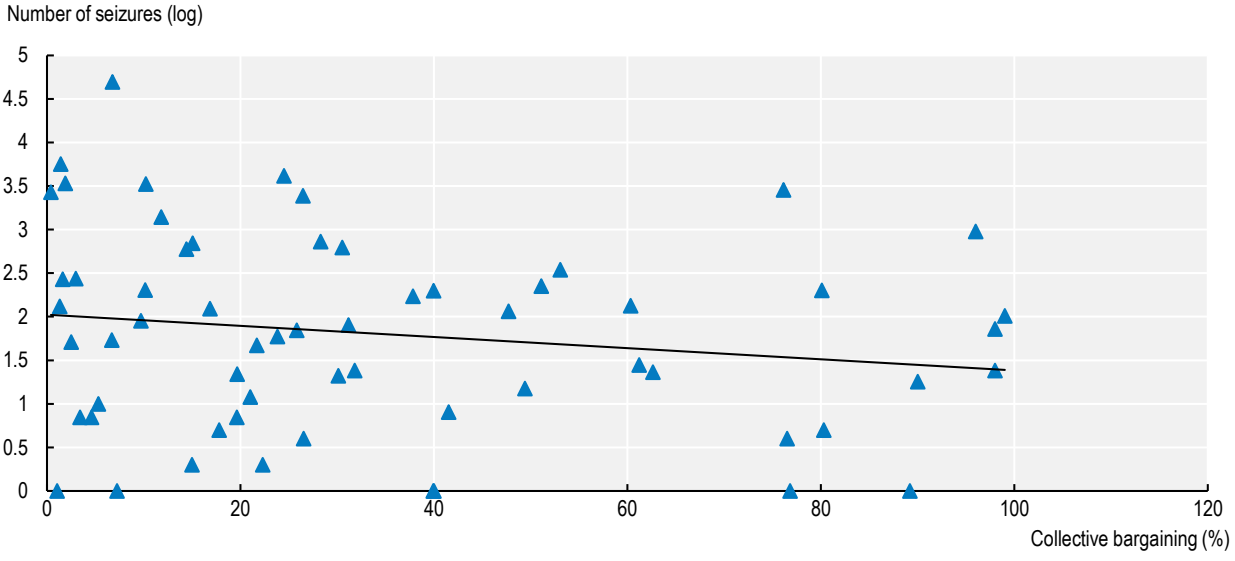
The analysis reveals a negative correlation between the likelihood of a country being identified as a source economy for illicit trade – as well as the number of seizures attributed to that country – and its collective bargaining rate. In other words, countries more frequently linked to illicit trade, whether in terms of probability or actual recorded seizures, tend to have lower levels of collective bargaining coverage among their workforces.

Figure 3.10. Correlation between GTRIC-e and collective bargaining coverage rate



Note: Each point corresponds to one country for 2021. Correlation coefficient=-0.27.
Source: ILOSTAT and OECD global customs seizures.

Figure 3.11. Correlation between the number of seizures and collective bargaining coverage rate



Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Each point corresponds to one country for 2021. Correlation coefficient=-0.17.
Source: ILOSTAT and OECD global customs seizures.

These inverse relationships may reflect underlying factors such as weaker labour institutions, limited worker protections, and reduced collective bargaining capacity, all of which can create environments where illicit economic activities are more likely to flourish. Lower trade union density may also be indicative of broader governance and enforcement gaps that enable both labour exploitation and the growth of illicit trade networks.

3.4. What correlations suggest for enforcement and countering labour abuse

The empirical analysis identifies several statistically significant correlations between indicators of illicit trade and labour market variables. These correlations do not establish causality, but provide important first insights into the structural conditions in which illicit trade may occur.

Positive correlations emerge in several dimensions. Countries with higher probabilities of being identified as sources of counterfeit trade display higher levels of child labour, including hazardous forms of child labour and a greater prevalence of informal employment. Similarly, seizure data – capturing the number of cases in which a country is identified as a source of counterfeit goods – correlates positively with indicators such as average weekly working hours, incidence of fatal occupational injuries, prevalence of forced labour, and weaker labour rights protections. In addition, a positive correlation is observed between the estimated value of counterfeit goods and the prevalence of forced labour.

Negative correlations were also identified. Higher probabilities of being a source of counterfeit trade are associated with lower levels of trade union membership, while both the probability of being a source country and the number of seizures linked to a country show negative correlations with collective bargaining coverage. However, these results should be interpreted with caution. Unionisation rates and bargaining coverage are influenced by a wide range of country-specific factors – including industrial structure, labour law design, and cultural traditions of social dialogue – which may be omitted variables related both to the labour conditions and the dynamics of illicit trade.

The underlying drivers of these observed associations merit closer attention. High levels of child labour and forced labour are likely to reflect broader deficiencies in regulatory enforcement and weak institutional capacity, which can simultaneously lower the cost of production for illicit operators and reduce the probability of detection. Detecting forced labour is challenging even within legitimate supply chains subject to audits and inspections; in illicit activities, where such mechanisms are absent and concealment is deliberate, it becomes exponentially more difficult. Similarly, high levels of informality tend to undermine compliance with national labour standards and tax regimes, creating structural incentives for illicit trade to proliferate in parallel with informal economic activity. Excessive working hours and high occupational injury rates may capture broader patterns of poor occupational health and safety enforcement, reflecting weak governance frameworks that also extend to trade oversight.

The negative correlations with trade union membership and collective bargaining coverage suggest that weak labour representation may reduce the bargaining power of workers, lowering wage floors, and weakening protections against exploitation. Such conditions could facilitate the establishment and operation of illicit trade networks by reducing the likelihood of labour-related resistance or exposure. In this sense, weak institutionalised forms of social dialogue may contribute to a permissive environment for illicit activities.

It is important to emphasise that these are correlations, not causal mechanisms. Observed relationships may be influenced by third factors, such as broader governance quality, economic structure, or patterns of industrial development. For example, countries with a large informal economy may simultaneously face challenges of weak labour protection and higher exposure to illicit trade, without one necessarily driving the other directly. Similarly, correlations with hazardous child labour and forced labour may partly reflect underlying levels of economic vulnerability and limited alternative income opportunities.

In conclusion, while the patterns observed provide strong indicative evidence of links between illicit trade and adverse labour market conditions, they remain preliminary. An economic modelling approach – e.g. applying multivariate regression analysis or structural equation modelling – is needed to test the robustness of these associations and to control for confounding variables. Such an approach, presented in the next section, assesses whether the correlations identified here hold once broader macroeconomic, institutional, and governance factors are accounted for.

4 Testing the link: Econometric evidence on counterfeiting and labour abuse

Establishing a robust empirical link between illicit trade and labour abuse requires moving beyond descriptive statistics and anecdotal evidence. While previous chapters have shown clear correlations between poor labour standards and indicators of counterfeiting, the question remains whether these relationships persist once broader economic and governance variables are taken into account. The purpose of this chapter is therefore to test the statistical robustness of the observed associations using econometric techniques.

The underlying premise is that weak labour standard enforcement, the prevalence of forced or informal work, and low wage protection are directly connected to structural incentives that reduce production costs and facilitate illicit manufacturing and trade networks. To put it differently, in jurisdictions with poor law enforcement and a low regard for the law, labour abuses and IP infringement tend to coexist as criminals tend to disregard both. Conversely, countries with stronger labour rights, effective social dialogue, and higher minimum wages should—*ceteris paribus*—display lower exposure to counterfeit trade.

The econometric analysis presented here operationalises this logic by combining OECD-EUIPO indicators of counterfeiting with a broad set of socio-economic and institutional variables, primarily sourced from the ILO and World Bank databases. The objective is to determine whether the presence of exploitative labour conditions is significantly associated with the intensity of counterfeit trade, after controlling for the level of economic development, trade openness, and institutional quality.

4.1. Modelling strategy and approach

The analytical framework relies on multiple linear regression models estimated through Ordinary Least Squares (OLS). For the purpose of this report, the analysis focuses on a single observation per country of origin for the year 2021. The dependent variable alternates between (i) the logarithm of the estimated value of counterfeit goods exported by a given economy and (ii) the logarithm of the number of customs seizures identifying that economy as a provenance of counterfeit products. These proxies collectively capture the magnitude and frequency of counterfeiting activities.

A systematic, iterative procedure was followed. The team first carried out exploratory data analysis to identify variable distributions, detect outliers, and assess potential multicollinearity. Subsequently, more than 50 model specifications were tested, combining different subsets of variables and transformations (logarithmic, quadratic) to ensure robustness. From this set, two models were ultimately selected for presentation in this report as they offered the best trade-off between explanatory power, statistical reliability, and interpretability. Other models generally confirmed the direction of the associations but added

limited marginal insight; hence, for clarity and parsimony, only the two most representative are discussed below.

Diagnostic tests: Each model was subjected to tests for homoscedasticity, normal distribution of residuals, and absence of multicollinearity. Multicollinearity diagnostics (Variance Inflation Factor, VIF) guided the removal of redundant variables. Measures such as adjusted R^2 and F-statistics were also considered to provide an indication of overall fit and explanatory strength, alongside these other diagnostic checks.

Model selection: The two final models presented below were chosen for their interpretability, stability of coefficients, and statistical robustness. Although other specifications yielded similar trends, the two selected regressions most clearly illustrate the link between forced labour and counterfeit trade.

The model specification can be expressed generically as:

$$(\text{Illicit Trade Indicator})_i = \beta 0 + \beta 1(\text{Labour Variables})_i + \beta 2(\text{Control Variables})_i + \mathcal{E}_i$$

where i indexes the country. All continuous variables were transformed into logarithms where appropriate to normalise distributions and reduce heteroskedasticity.

4.1.1. Control variables

To isolate the effect of labour exploitation on counterfeiting, a set of control variables was included to account for differences in economic structure, institutional quality, and trade exposure.

- *Exports value* which represents the total monetary value of goods exported by a reporting economy (expressed in USD), as recorded in the United Nations Comtrade Database. It is based on official data reported by national statistical authorities and harmonised by the UN Statistics Division to ensure international comparability. This measures trade openness and global market integration. Economies with higher export volumes are more exposed to global supply chains and thus more likely to appear in customs seizure records—either as legitimate exporters or as transit hubs exploited by counterfeiters. For the purposes of the analysis, the logarithm of export values was used.
- *GDP per capita* expressed in constant 2015 USD, based on the World Bank's World Development Indicators (WDI) database controls for the level of economic development. Wealthier economies typically display stronger regulatory frameworks and enforcement capacity, though they may still act as transit points for illicit goods.
- *Population covered by at least one social benefit*, produced by ILO measures the percentage of the total population that is legally covered by at least one social protection benefit. This indicator captures the breadth of social protection. Broader welfare coverage can reduce vulnerability to exploitation by offering safety nets that prevent coercive labour conditions.
- *Poverty gap*, produced by the World Bank, measures the intensity of poverty by calculating how far on average, the poor are from the poverty line. This reflects the depth of poverty below the national poverty line. Higher poverty gaps increase economic vulnerability and can push workers into informal or exploitative employment, indirectly supporting illicit production networks.
- *Rule of Law Index* from the World Bank's Worldwide Governance Indicators (WGI) measures the extent to which agents have confidence in and abide by the rules of society, particularly the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Scores range from –2.5 (weak) to +2.5 (strong) governance performance. This indicator serves as a proxy for institutional quality and enforcement effectiveness. Strong rule of law is expected to constrain both forced labour and counterfeit production.
- *Unemployment rate*, which measures the share of the labour force that is unemployed, expressed as a percentage of the total labour force. It is sourced from the World Bank's World Development Indicators (WDI) database and is based on national labour force surveys and official statistics:

Reflects labour market pressure. High unemployment can weaken workers' bargaining power and increase susceptibility to exploitation.

- *The Statutory Nominal Gross Monthly Minimum Wage*, published by the International Labour Organization (ILO), refers to the legally mandated minimum wage set by national legislation or regulations, expressed in nominal gross monthly terms. This indicator is used to capture the effect of wage protection. For the purposes of the analysis, the inverse of the minimum wage was used, which means that a lower minimum wage (higher inverse value) indicates cheaper labour and potentially stronger incentives for illicit production.

Collectively, these controls ensure that the estimated link between counterfeiting and labour exploitation is not simply an artefact of broader development differences or institutional weakness.

4.1.2. Regressions

This section presents the two most relevant regression models.

Model 1, presented in Table 4.1, examines how forced labour prevalence and wage conditions correlate with the scale of counterfeit trade, controlling for trade openness and income levels.

Results show that exports value (log) is strongly and positively associated with the value of counterfeit goods – confirming that economies integrated in global trade are also those where illicit goods can more easily circulate. GDP per capita and its squared term are statistically insignificant, although their signs suggest a mild inverted-U pattern – counterfeiting may rise with early stages of industrialisation but decline once governance capacity strengthens.

Table 4.1. Regression of the value of fakes (in log), Model 1

Dependent variable: Value of fakes (in log)	
Exports value (log)	0.9260321***
	(0.146281)
GDP per capita	0.0000212
	(0.000034)
GDP per capita²	-0.0091348
	(0.010227)
Forced labour (%)	0.0000764***
	(0.0000249)
Minimum wages (inverse)	0.1192676***
	(0.012234)
Constant	-2.392026
	(3.200848)

Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Number of observations: 66. Standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01.

Crucially, the forced labour variable is positive and highly significant. This indicates that countries with higher prevalence of forced labour tend also to export higher values of counterfeit goods. The coefficient magnitude, though small in absolute terms, is economically meaningful, implying that even modest increases in forced labour prevalence are associated with measurable rises in counterfeit trade intensity. Indeed, the coefficient associated with forced labour indicates that, all else being equal, a one-percentage-point increase in the share of forced labour in an economy is linked to an estimated 0.0076% rise in the value of counterfeit trade. The minimum wage (inverse) variable also shows a strong positive and significant effect, demonstrating that lower wage protections correlate with greater counterfeit activity. This

finding reinforces the notion that cost-cutting through labour exploitation is a key competitive strategy in illicit production.

In summary, Model 1 highlights two key drivers of counterfeit export intensity: participation in global trade networks and the prevalence of exploitative labour conditions.

Model 2, presented in Table 4.2, relies on the same dependent variable as in Model 1, but incorporating informal employment as an additional explanatory variable.

Table 4.2. Regression of the value of fakes (in log), Model 2

Dependent variable: Value of fakes (log)	
Exports value (log)	0.7230599***
	-(0.160243)
GDP per capita	0.000016
	(0.0000525)
GDP per capita²	-0.0001556
	(0.020829)
Forced labour (%)	0.0000727***
	(0.0000247)
Informal employment (%)	0.0026392
	(0.010231)
Minimum wages (inverse)	0.1216203***
	(0.016562)
Constant	1.821787
	(2.92283)

Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Number of observations: 56. Standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01.

The introduction of informal employment allows to test whether the size of the unregulated labour market contributes to counterfeiting beyond the effects of forced labour. Although the coefficient for informal employment is positive (as theoretically expected), it is not statistically significant in this sample. Nonetheless, its inclusion leaves the other coefficients virtually unchanged – an indication of model robustness.

The persistence of the strong and significant coefficients for forced labour and low minimum wages confirms that the observed relationship is not merely a reflection of informality, but rather of structural coercion and the absence of labour protection. The stability of results across models suggests a consistent pattern: exploitative labour practices and weak wage enforcement remain key correlates of counterfeit trade, even when broader economic conditions are controlled for.

Across all specifications, forced labour emerges as the most consistent and statistically robust determinant of just how intense counterfeiting is. The positive relationship persists across different proxies, model forms, and control sets. The interpretation is straightforward: economies in which forced labour is more prevalent are systematically more likely to engage in – or be used as platforms for – the production or distribution of counterfeit goods.

Lower minimum wages and weak labour protections further amplify this association, as they lower production costs and create environments conducive to illicit manufacturing. The lack of significance for GDP per capita indicates that income level alone does not explain differences in counterfeiting exposure; institutional and labour governance factors matter more.

These findings align with broader qualitative evidence showing that illicit producers frequently rely on coerced or underpaid labour to maintain profitability in the absence of economies of scale or technological advantage.

The econometric analysis supports the hypothesis that labour exploitation is closely associated with illicit trade in counterfeit goods. Forced labour stands out as the strongest predictor, followed by wage repression and weak institutional enforcement. The data suggest a statistically consistent relationship, even after controlling for economic size, openness, and governance indicators.

Together, the results suggest that tackling forced labour and strengthening labour rights are not only human-rights imperatives, but essential components of trade-integrity and anti-counterfeiting strategies. Policies that improve wage protection, expand social coverage, and enhance enforcement capacity can simultaneously reduce both human exploitation and illicit trade.

5 Key findings and policy directions

The analysis presented in this report sheds new empirical light on an issue that has long been discussed, but rarely quantified: the relationship between illicit trade in counterfeit goods and the exploitation of labour. The evidence presented here shows that these two phenomena are not merely parallel challenges, but closely intertwined dimensions of a single economic reality in which weak governance, poor enforcement, and social vulnerability reinforce one another.

5.1. Understanding the connection

Counterfeiting has often been described as a problem of intellectual property and trade enforcement. Yet the findings of this report reveal that it is also a labour-market problem. Economies in which forced labour is more prevalent are consistently those in which the intensity of counterfeit trade is higher. This relationship holds even after controlling for the level of income, openness to trade, and institutional quality. In other words, the data indicate that the exploitation of workers and the production of fake goods tends to occur within the same enabling environments – contexts characterised by weak labour protections and limited rule-of-law enforcement.

The relationship uncovered here is not accidental. Counterfeit production thrives where human labour is cheap, unprotected, and easily replaceable. In such contexts, coercion or extreme forms of vulnerability substitute for productivity or innovation as sources of competitiveness. The econometric models demonstrate that forced labour is one of the most robust predictors of counterfeit export intensity. The same patterns emerge with high informality, which together form a structural ecosystem in which illegal manufacturing can flourish. Although informal employment is not included in the final model presented here, testing several alternative specifications indicates a significant relationship between the number of counterfeit goods seized by country of origin and levels of informality (Annex A). For clarity and conciseness, only two models are reported in the main text. However, the exploratory analysis yielded several insights. Notably, the results suggest that informal employment plays a significant role in facilitating more extensive illicit economic activity, which is associated with multiple dimensions of poor labour standards.

Beyond numbers, these results echo the evidence gathered by enforcement agencies: the existence of clandestine factories operating without contracts, warehouses where migrant workers are locked in overnight, or small workshops where children assemble counterfeit products. Quantitative analysis confirms these are not isolated stories, but symptoms of broader economic linkages between criminal trade and labour abuse.

5.2. Broader implications

Recognising this connection changes how policymakers could frame the risk. Efforts to counter illicit trade must also engage with the underlying labour and social dynamics that make counterfeiting profitable, in addition to strengthening border controls and other intellectual-property enforcement. Similarly, initiatives

to eradicate forced labour must take into account the trade and supply-chain dimensions that perpetuate the demand for cheap, unregulated production.

This convergence has three important implications.

First, labour rights and trade integrity are mutually reinforcing: strengthening one advances the other. Protecting workers from modern slavery helps remove one of the key cost advantages that sustain illicit production. Conversely, dismantling criminal trade networks contributes to a more level playing field for employers and workers who operate in compliance with labour laws and standards.

Second, data and enforcement need to evolve together. Customs and labour authorities often operate in parallel, yet their information is complementary. Integrating labour-risk indicators – such as prevalence of forced labour or informality – into customs risk-profiling systems could help identify shipments or production clusters at higher risk of illegality. Likewise, labour-inspection strategies could benefit from trade-related intelligence on suspicious operators or supply chains.

Third, the results underline the strategic importance of social protection. The econometric evidence shows that where rule of law (including labour law), is eroded, counterfeit trade arises. This suggests that social policies are not merely redistributive; they are preventive instruments against illicit trade and the exploitation that sustains it.

5.3. Vectors for action

On the basis of these insights, several broad policy directions emerge:

- *Strengthen labour governance and inspections*. Effective inspection systems, equipped to detect both forced labour and links to illicit production, are a first line of defence. This includes training inspectors to recognise indicators of counterfeit manufacturing and ensuring co-ordination with customs and law-enforcement agencies.
- *Integrate labour-rights risk into trade enforcement*. Customs and trade authorities could include labour-rights metrics among the criteria used for targeting high-risk shipments, particularly in sectors known for counterfeit production such as textiles, footwear, and electronics.
- *Promote responsible business conduct*. The *OECD Due Diligence Guidance* and the *Guidelines for Multinational Enterprises* provide frameworks for companies to map, assess, and mitigate forced-labour risks in their supply chains. Broad implementation of these tools can reduce demand for illicit inputs and promote cleaner trade flows.
- *Expand the certification of clean trade zones*. The OECD Free Trade Zone Certification Scheme demonstrates how a trade-integrity framework can simultaneously strengthen controls against illicit trade and reinforce compliance with labour standards. Extending this model to additional regions could help embed decent work principles in global logistics networks.
- *Invest in data and transparency*. The empirical exercise behind this report depended on access to harmonised data on labour and trade. Fostering such data collaboration will be crucial for monitoring progress and refining risk assessment.
- *Promote tailored training for investigators to spot labour exploitation*. Targeted training should be developed to help identify and report signs of labour exploitation during counterfeit enforcement operations.

Furthermore, to maintain visibility over these interlinked risks, the OECD could in future work track indicators to monitor forced-labour related vulnerabilities. Such indicators would allow regular updates, cross-country benchmarking, and early detection of emerging vulnerabilities in global value chains.

5.4. Moving forward

This report demonstrates that the relationship between counterfeiting and labour exploitation is real, measurable, and policy-relevant. It calls for a more integrated approach – one that treats trade integrity, decent work, and fair competition as parts of a single policy agenda. Ending forced labour is not only a moral imperative, it is also an economic necessity to protect legitimate trade, safeguard innovation, and ensure that global markets reward compliance rather than criminality.

The OECD and its partners will continue to refine evidence and developing tools that help governments and businesses close the governance gaps that are exploited by counterfeiters and traffickers. The findings of this report are clear: where the playing field is levelled, markets are fairer and illicit trade loses ground. Combating labour abuse, therefore, is not only a matter of human dignity, it is the cornerstone of sustainable, clean trade.

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Annex A. Additional data on customs seizures

Table A A.1. Regression of the number of customs seizures

Number of seizure (log)	Coefficient
Exports (log)	0.822743***
	(0.135799)
GDP per capita	-0.0000728
	(0.0000636)
GDP per capita²	0.0215491
	(0.024202)
Rule of law (global index)	-0.950192
	(0.606799)
Informal employment (%)	0.0273001*
	(0.014844)
Constant	-19.87697***
	(3.019083)

Note: Data are shown on a logarithmic scale to better compare values that differ widely in magnitude. Number of observations: 73. Standard errors in parentheses; * p<0.1, ** p<0.05, *** p<0.01.

Illicit Trade

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This report presents new empirical evidence demonstrating a robust link between trade in counterfeit goods and labour exploitation. Countries with higher levels of forced labour and informality show greater counterfeit-export intensity, indicating that illicit production thrives where workers are unprotected and easily replaced. These findings call for integrated policy action: addressing counterfeiting requires improving labour-market conditions and promoting high labour standards is important to ensuring clean and competitive global trade. Strengthened data sharing, coordinated enforcement, responsible business conduct, and enhanced social-protection systems are essential.

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