

**INSIDE  
THE**



↑  
**REAL**

**FACTORY**

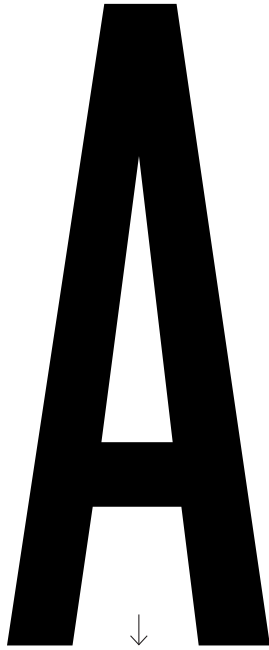
IN SOUTHERN CHINA, MAKING FAKE TENNIS SHOES HAS BECOME A VERY BIG BUSINESS. CHINESE AUTHORITIES ARE SLOW TO ENFORCE THE LAW, AND IT'S BECOMING HARDER AND HARDER TO TELL WHICH SHOES ARE REAL.

**BY NICHOLAS SCHMIDLE**



**KNOCKOFF** ★

PHOTOGRAPHS BY ANDREW BETTLES



shopkeeper in Italy placed an order with a Chinese sneaker factory in Putian for 3,000 pairs of white Nike Tiempo indoor soccer shoes. It was early February, and the shopkeeper wanted the Tiempos pronto. Neither he nor Lin, the factory manager, were authorized to make Nikes. They would have no blueprints or instructions to follow. But Lin didn't mind. He was used to working from scratch. A week later, Lin, who asked that I only use his first name, received a pair of authentic Tiempos, took them apart, studied their stitching and molding, drew up his own design and oversaw the production of 3,000 Nike clones. A month later, he shipped the shoes to Italy. "He'll order more when there's none left," Lin told me recently, with confidence.

Lin has spent most of his adult life making sneakers, though he only entered the counterfeit business about five years ago. "What we make depends on the order," Lin said. "But if someone wants Nikes, we'll make them Nikes." Putian, a "nest" for counterfeit-sneaker manufacturing, as one China-based intellectual-property lawyer put it, is in the southeastern Chinese province of Fujian, just across the strait from Taiwan. In the late 1980s, multinational companies from all industries started outsourcing production to factories in the coastal provinces of Fujian, Guangdong and Zhejiang. Industries tended to cluster in specific cities and subregions. For Putian, it was sneakers. By the mid-1990s, a new brand of factory, specializing in fakes, began copying authentic Nike, Adidas, Puma and Reebok shoes. Counterfeiters played a low-budget game of industrial espionage, bribing employees at the licensed factories to lift samples or copy blueprints. Shoes were even chucked over a factory wall, according to a worker at one of Nike's Putian factories. It wasn't unusual for counterfeit models to show up in stores before the real ones did.

"There's no way to get inside anymore," Lin told me, describing the enhanced security measures at the licensed factories: guards, cameras and secondary outer walls. "Now we just go to a shop that sells the real shoes, buy a pair from the store and duplicate them." Counterfeits come in varying levels of quality depending on their intended market. Shoes from Putian are designed primarily for export, and in

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corporate-footwear and intellectual-property-rights circles, Putian has become synonymous with high-end fakes, shoes so sophisticated that it is difficult to distinguish the real ones from the counterfeits.

In the last fiscal year, U.S. Customs and Border Protection seized more than \$260 million worth of counterfeit goods. The goods included counterfeit Snuggles, DVDs, brake pads, computer parts and baby formula. But for four years, counterfeit footwear has topped the seizure list of the customs service; in the last fiscal year it accounted for nearly 40 percent of total seizures. (Electronics made up the second-largest share in that year, with about 12 percent of the total.) The customs service doesn't break down seizures by brand, but demand for the fake reflects demand for the real, and Nike is widely considered to be the most counterfeited brand. One Nike employee estimated that there was one fake Nike item for every two authentic ones. But Peter Koehler, Nike's global counsel for brand and litigation, told me that "counting the number of counterfeits is frankly impossible."

## LIN'S

factory is off-white, five stories tall and fronted by a brown metal gate. It was a seasonable summer afternoon when I visited. Lin is 32, with a wispy mustache and a disarming smirk. He met me outside the factory and took me through the gate. We



**A HELP-WANTED NOTICE  
ON THE WALL BESIDE  
THE GATED ENTRANCE  
SOUGHT INDIVIDUALS WITH  
STITCHING SKILLS FOR  
ALL SHIFTS; THE BULLETIN  
MADE NO MENTION THAT  
THE WORK WAS ILLEGAL.**

scaled two flights of aluminum stairs and entered a production floor echoing with the grinding and hissing noises of industrial labor. A few dozen workers stuffed shoe tongues with padding, brushed glue onto foot molds and ran laces through nearly finished sneakers. Nike and Adidas boxes were stacked in one corner, a pile of Asics uppers in another. On this particular day, the factory was churning out hundreds of trail runners.

A help-wanted notice on the wall beside the gated entrance sought individuals with stitching skills for all shifts; the bulletin made no mention that the work was illegal. Such things are often just assumed in Putian. Managing a fake-shoe factory puts Lin in the middle of a multibillion-dollar transnational enterprise that produces, distributes and sells counterfeits.

Of course, like coca farmers in Bolivia and opium croppers in Afghanistan, Lin doesn't make the big money; that's for the networks running importation and distribution. Last year, for example, the F.B.I. arrested several people of Balkan origin in New York and New Jersey for their suspected roles in "the importation of large amounts of cocaine, heroin, marijuana, oxycodone, anabolic steroids, over a million pills of Ecstasy and counterfeit sneakers." Dean Phillips, the chief of the F.B.I.'s Asian/African Criminal Enterprise Unit, describes counterfeiting as a "smart play" for criminals. The profits are high while the penalties are

low. An Interpol analyst added: "If they get caught with a container of counterfeit sneakers, they lose their goods and get a mark on their customs records. But if they get caught with three kilos of coke, they're going down for four to six years. That's why you diversify."

In September 2007, police officers in New York City seized 291,699 pairs of fake Nikes from two warehouses in Brooklyn. The early-morning raids were part of a simultaneous crackdown on a counterfeiting ring with tentacles in China, New York and at least six other American states. Employing undercover agents and wiretapping, the joint operation — run by Immigration and Customs Enforcement, the New York State Police, the Niagara Falls Police Department and the New York Police Department — exposed a scheme in which counterfeit Nikes arrived from China, were stored in Brooklyn and then shipped, often via UPS, to stores in Buffalo, Rochester, Pittsburgh, Dallas, Milwaukee, Chicago, Newark, Pawtucket, R.I., and Indianapolis. Lev J. Kubiak, an immigration agent involved in the case, said the total street value of the seized goods (had they been legitimately trademarked) "turned out to be just over \$31 million." Establishing provenance on the sneakers proved difficult. "Naturally the importation docs were not truthful," an immigration spokeswoman wrote in an e-mail message, when I asked her where the shoes originated. "But probably in or near Putian."

After touring the assembly line, Lin and I walked up another flight of stairs to the roof of the factory. A mild breeze blew off the creek that snaked behind the building. Half-constructed high-rise apartments, ensconced in scaffolding and green mesh, stood beside towering cranes. The pace of development in Putian, a secondary provincial city with a population of about three million, was dizzying. A cluster of unfinished apartment buildings visible from my hotel window seemed to be a floor higher every morning.

We sat in Lin's rooftop office around a small table topped with a chessboard-size tea-making contraption. Lin proceeded to sweep the

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- **PULL TAB**  
The finish of the top edge is asymmetrical.
- **LOGO**  
The signature Nike logo on the counterfeit shoe is more like a check mark than a swoosh.
- **STITCHING**  
Each stitch where the upper meets the sole is longer and less uniform.

FAKE





excess water on the tea table with a paint brush and then make a pot of green tea while recounting the transaction with the Italian shopkeeper earlier this year. After pouring cups for my translator and me, Lin excused himself and ran downstairs. He returned with three samples, including a single fake Nike Tiempo, the first of the batch, which was sent to the Italian buyer to make sure it met his standards. Scribbled on the side of the shoe in navy blue pen was a date and the man's signature. While looking the shoes over myself, I noticed the label on the inside of the tongue read "Made in Vietnam." That was all part of the subterfuge, Lin said, adding that there are "different levels of counterfeit. Some are low quality and don't look anything like the originals. But some are high quality and look just like the real ones. The only way to tell the difference between the real ones and ours is by the smell of the glue." He took back the shoe, buried his nose in the footbed and inhaled.

## THE

National Intellectual Property Rights Coordination Center is the anticounterfeiting headquarters in the United States. Situated among short stacks of concrete office buildings in Arlington, Va., the center brings together representatives from Immigration and Customs Enforcement, Customs and Border Protection, the Food and Drug Administration, the F.B.I., the Patent and Trademark Office, the United States Postal Service, the Defense Criminal Investigative Service, the Naval Criminal Investigative Service and other government agencies. J. Scott Ballman, an immigration agent with short, sandy hair and a Tennessee accent, is the center's deputy director. Since joining customs in the early 1980s, Ballman has tracked the evolution of law enforcement's response to intellectual-property violators as closely as anyone. (Customs split after 9/11 into Customs and Border Protection, which handles interdiction, and Immigration and Customs Enforcement, which deals with investigations.) He worked on what he says was the first undercover intellectual-property case for the customs service when he

and a team of agents investigated and ultimately arrested a group in Miami for assembling counterfeit watches in 1985. "Most production of this stuff has since been pushed out of the United States," he told me.

In 1998, the National Security Council studied the impact of intellectual-property crimes and concluded that federal law-enforcement efforts lacked coordination. An executive order soon followed, sketching out the role of the National Intellectual Property Rights Coordination Center. Two years later a makeshift office opened in Washington, but after 9/11, chasing counterfeit goods lost priority. Ballman said: "Resources and focus changed overnight. Agents were detailed elsewhere and moved away from thinking about I.P. to counterterrorism and weapons of mass destruction."

The Obama administration has made intellectual property more of a focus. "Our single greatest asset is the innovation and the ingenuity and creativity of the American people," President Obama said in a speech in March. "But it's only a competitive advantage if our companies know that someone else can't just steal that idea and duplicate it with cheaper inputs and labor." To implement his intellectual-property strategy, Obama appointed an intellectual-property-enforcement coordinator, while Immigration and Customs Enforcement invigorated the property-rights coordination center.

Can such efforts make a difference? "You're not going to arrest your way out of this," Bob Barchiesi, president of the International Anticounterfeiting Coalition, told me in a despairing tone this past spring. As long as there is a demand, he insisted, there will be supply. He had just returned from a trip to China, the point of origin for nearly 80 percent of all goods seized by Customs and Border Protection in the previous fiscal year. One day,



Barchiesi observed a factory raid where counterfeit jeans were seized by the Chinese authorities. The factory, its employees and all its equipment remained in place. Barchiesi called the raid a "propaganda show."

Efforts to have intellectual-property rights honored in China are not new. Soon after Gilbert Stuart completed his Athenaeum portrait of George Washington in 1796, the one that's reproduced today on the front of every \$1 bill, a Philadelphia ship captain named John Swords set sail for southeast China. Once in Canton, in modern-day Guangdong province, Swords ordered 100 unauthorized replicas of the Washington portrait, which were painted on glass. (Two replicas had somehow already made their way to China and served as the template.) Stuart was furious when he learned of Swords's activities and, in 1801, he sued Swords in a Pennsylvania court and won. The damage was probably done, however. Even more than a century later, Antiques Magazine observed, "a good many portraits of George Washington painted on glass are knocking about the country."

But China's counterfeiting dynamic is more complicated than foreign goods being copied in places like Putian. Chinese sneaker brands, for instance, are also counterfeited. And the domestic debate about ensuring intellectual-property rights dates to at least the middle of the 19th century, said Mark Cohen, who moved to Beijing in 2004 to be the U.S. Patent and Trademark Office's first permanent intellectual-property representative at the American Embassy. (He has since become co-chairman of the American Chamber of Commerce's intellectual-property committee.) One initiative of the Taiping Rebellion during the 1850s, Cohen told me, was to "draft a patent law to encourage Chinese innovation." Over a cappuccino

FAKE



# AS ONE CHINESE SALESMAN SELLING COUNTERFEITS IN BEIJING TOLD ME: 'THE SHOES ARE ORIGINAL. IT'S JUST THE BRANDS THAT ARE FAKE.'

- **ETCHING**  
The model number is rendered more crudely on the counterfeit.
- **STITCHES**  
The size of the individual stitches vary considerably.
- **MATERIAL**  
The edge has a jagged finish and the material is much thicker than the original.

one morning at an upscale cafe in Beijing, Cohen criticized the notion of Chinese government negligence, which he called overly simplistic. “People come to this environment with certain assumptions that all this counterfeiting must mean that there’s no one enforcing,” he said. “But there’s loads of people enforcing! There’s enough I.P. officials” — at least several hundred thousand by his estimate — “to make a small European country.”

Numbers don’t necessarily spell efficiency, of course. Joe Simone, an intellectual-property lawyer with Baker & McKenzie in China, said: “This is police work, but [the Chinese government] isn’t putting enough police on it. Ninety-nine percent of the enforcement work is nothing but bureaucrats.” He questioned whether the current enforcement system was effective. Lin, the counterfeiter from Putian, told me about instances in which local authorities had searched his factory or even forced him to close in daytime, leaving him to run the factory at night. But production always goes on.

Beijing’s top intellectual-property officials, meanwhile, seem to disagree over what even constitutes counterfeiting. Last year, a debate occurred between the heads of the State Intellectual Property Office and the National Copyright Administration. The dispute revolved around *shanzhai*, a term that translates literally into “mountain fortress”; in contemporary usage, it connotes counterfeiting that you should take pride in. There are *shanzhai* iPhones and *shanzhai* Porsches.

In February 2009, a reporter asked Tian Lipu, the commissioner of the State Intellectual Property Office, whether *shanzhai* was something to be esteemed. “I am an intellectual-property-rights worker,” Tian curtly replied. “Using other people’s intellectual property without authorization is against the law.” Chinese culture, he added, was

not about imitating and plagiarizing others. But one month later, Liu Binjie, from the National Copyright Administration, drew a distinction between *shanzhai* and counterfeiting. “*Shanzhai* shows the cultural creativity of the common people,” Liu said. “It’s a market need, and people like it. We have to guide *shanzhai* culture and regulate it.” Soon after that, the mayor of Shenzhen, an industrial city near Hong Kong, reportedly urged local businessmen to ignore lofty debates about what is and isn’t defined as counterfeiting and to “not worry about the problem of fighting against plagiarism” and “just focus on doing business.”

This contradictory political environment parallels — or perhaps fosters — a seemingly confused corporate response. There is no doubt that, as with Washington’s Athenaeum portrait, there are today a “good many” fake sneakers “knocking about” China, the United States, Italy and the rest of the world. But none of the major footwear companies I contacted ventured an estimate of the scale of their counterfeiting problems. For them, it’s something better not discussed. Peter Humphrey, the founder of a risk consultancy firm in Beijing called ChinaWhys, suggested this could be for one of two reasons: a wariness of “upsetting the Chinese authorities” or being “afraid to admit publicly too loud” that they have a counterfeiting problem. “Because when word gets around the consumer market,” Humphrey said, “then everyone starts wondering if their shoes are real or not.”

How do counterfeit products translate to the bottom line of the





legitimate company? Is each fake Nike or Adidas tennis shoe a lost sale? A senior employee at a major athletic-footwear company, speaking on condition of anonymity, reflected on counterfeiting as a simple fact of industrial life: “Does it cut into our business? Probably not. Is it frustrating? ... Of course. But we put it as a form of battery, I guess.”

It could also be a form of industrial training. In Putian, Lin told me of his real ambitions. “Making counterfeit shoes is a transitional choice,” he said. “We are developing our own brand now. In the longer term we want to make all our own brands, to make our own reputation.” Lin’s goals seemed in line with China’s de facto counterfeiting policy: to discourage it as a matter of law, but also to hope, as a matter of laissez-faire industrial-development policy, that the skills being acquired will eventually result in strong legitimate businesses.

## PUTIAN’S

counterfeit-sneaker industry operates in the open. Just type “Putian Nike” into any Internet search engine, and hundreds of results immediately turn up, directing you to Putian-based Web sites selling fake shoes. (Putian’s counterfeit-sneaker business has become so

renowned that Alibaba.com, an online marketplace, offers a page warning buyers to exercise caution when dealing with suppliers from Putian.) “People who make the product and sell the product are no longer secret,” says Harley Lewin, an intellectual-property lawyer at the firm McCarter & English. “Where sellers in the past were unwilling to disclose who they were, these days it’s a piece of cake” to find them.

Student Street in downtown Putian is a leafy, two-lane road lined with stores stocked with nothing but fake tennis shoes. I spent an afternoon browsing their wares. Like the products inside, the stores varied in quality. One resembled an Urban Outfitters — exposed brick and ductwork, sunlight beaming through a windowed facade, down-tempo electronica playing in the background — but the majority of the stores appeared to value enterprise over aesthetics, with storefronts made of metal shutters left ajar to indicate they were open for business. I ducked into one and discovered a single room with two opposing walls covered in sneakers shrink-wrapped in clear plastic: Air Jordans, the latest LeBron James models, Vibram FiveFingers and more. It was like a Foot Locker for fakes.

I pulled a pair of black Nike Frees from the rack, spun them in my

hands, folded the sole back and forth, tugged at the stitching and sniffed the glue; every budding aficionado has their tasting routine. (I never could detect the smell of “bad” glue.) The shoes, which cost about \$12 at the Student Street shops, seemed indistinguishable from the pair my wife bought for \$85 in the United States. “I don’t know if I could tell a [fake] shoe right off the bat,” Ballman, the deputy director of the National Intellectual Property Rights Coordination Center, told me. If someone who specialized in intellectual-property-rights enforcement most of his career wasn’t sure he could tell the difference, how could I? (Ballman said the key was that fake shoes have a “heavy” glue smell.) As one Chinese salesman selling counterfeits in Beijing told me: “The shoes are original. It’s just the brands that are fake.”

“Are you looking to buy or sell?” a tall, 30-something woman with bangs asked as I examined the Nike Frees. Her husband sat behind her, facing a large desktop-computer monitor. Their young daughter sat at another computer, wearing a headset and playing video games. The shop doubled as a wholesaler. The woman later conceded that she and her husband ran a small factory as well as the store. They were on the lookout for ways to get their sneakers to market and for sales agents who could sell their shoes in the West. “We can give a discount if you order in bulk,” she said.

I asked how long it would take to make 2,000 pairs. “Once you send us the model, about a month,” she said. Her husband spoke up and assured me that the shoes “would be the highest quality,” adding, “we’ll use all the same materials. All the best materials are available in Putian.” (Lin, however, disputed that and said that using the same materials would quickly drive the price up.)

“How would I get 2,000 pairs of counterfeits past customs agents in the United States?” I asked.

“They won’t come from Putian,” he said. Or at least the documents wouldn’t indicate that. “We usually ship through Hong Kong on our way to America. Don’t worry. We do this all the time.”

## A

week later, I flew to Hong Kong to meet with a private detective named Ted Kavowras. Kavowras runs Panoramic Consulting, an investigative firm employing 30 people in China and Hong Kong. (He is also the China and Hong Kong ambassador for the World Association of Detectives.) His forte is investigating counterfeit factories and distribution net-



works. “Until seven years ago, to export from China was much more complex, because you didn’t have the Internet and didn’t have that window into the world,” he told me one evening over Diet Cokes and skewers of grilled octopus at a small Japanese restaurant near his office. “So most of the exports that came out of China had to go through these state-owned shipping companies. It was all pretty centralized. Now it’s pretty much a free-for-all.”

Kavowras is a pear-shaped 48-year-old with pasty skin and a brash demeanor. The night after we met for Japanese food, he showed up at a fancy steakhouse wearing a black velour Fila tracksuit. (“What? I’m from Brooklyn,” he said with a shoulder shrug and pursed lips.) Kavowras grew up in New York City and joined the New York Police Department soon after graduating from high school. Three years later he retired on disability. He ended up working “a lot of law-enforcement stuff,” including security-guard duties, but he found it unrewarding. “When you’re not the real thing, you’re not the real thing,” he said. Kavowras then worked in production with *The New York Times* but quit after five years and moved to Asia. In 1994, Pinkerton offered him a job in Guangzhou, China. “I was at the right place at the right time with the right skill set,” he said. Five years later, Kavowras formed Panoramic.

Kavowras estimates that he works about 800 cases a year, encompassing everything from sneakers to watches to industrial mining pumps. In 2002, New Balance hired him to nose around a factory run by one of its former licensees in China, a Taiwanese businessman named Horace Chang. According to press reports, Chang had more or less gone rogue. Though he had been previously contracted by New Balance to make and distribute sneakers, relations turned bad, and New Balance canceled the contract. But Chang continued making shoes that bore the New Balance trademark without permission. New Balance asked Kavowras to get inside Chang’s operation and report back. “I use a wonderful investigative methodology that works like a dream,” Kavowras said when I asked him how a former street cop from Brooklyn goes undercover in China. “Drug dealers have to deal drugs, and counterfeiters have to sell their goods. When I show up at a counterfeit factory, I look like a pretty girl on

- **SOLE**  
A model identifier is missing from the side of the sole.
- **LOGO**  
The New Balance symbol lacks the detailing and metallic finish of the original.
- **MESH**  
The perforations on the counterfeit are smaller.

prom night. I look like a big buyer who they can export a lot of goods to.” Chang eventually quit making counterfeit New Balance shoes.

If there’s one commonality throughout the counterfeit world, it’s deception. Along the top of a leather cabinet in Kavowras’s office, located at the end of a hallway on an upper floor of a quiet building, was a row of putty heads that a Hollywood makeup artist had designed so that Kavowras and his staff could experiment with disguises: hats, sunglasses, beards and mustaches, fake teeth. “I’m the only working actor who’s not waiting tables on the weekend,” Kavowras joked. A half-dozen fax machines were programmed to display the country codes and phone numbers of the overseas companies that Kavowras and his colleagues pretended to represent. Each employee kept a tray stacked with various business cards to corroborate their multiple identities. “The bigger the lie, the more they believe,” said Kavowras, who also rents four shell offices around Hong Kong where he meets “targets.”

Kavowras crossed the office to a shelf piled with purses and backpacks embedded with hidden cameras. I asked him how the recession had affected the detective business. “Business definitely slowed down last year,” he said. Corporate brand-protection budgets were slashed, and Kavowras’s caseload dropped. “But we’ve been twice as busy this year. Whatever companies avoided last year came back to haunt them this year. You can’t run away from these issues. Some people say, ‘Oh, it’s just China, we don’t really have a market in China.’ But if it’s in China, it’s going to get out. It’s going to wash up on beaches all over the world.”

Where did he see the counterfeit industry going next?

“It’s a constant battle,” he said.

“Like ‘the War on Drugs’-kind of constant battle?” I asked.

“That’s different,” he said. Kavowras popped in a set of fake teeth and smiled. “I see the battle staying the same, just the battleground changing. More and more industrial work is shifting to Vietnam. Cambodia too, though it’s still a bit messy there. It’s going to become more international.” And that, in all likelihood, will mean more agents, more detectives and more money spent to pursue fake sneakers that no one is quite sure they can identify. ♦