

Substandard, Inferior and Counterfeit Products in Bhutan

A Consumer Protection Perspective

by

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Executive Summary

Bhutan faces growing challenges from substandard, inferior and counterfeit products, which threaten consumer safety, fair competition, and market integrity. These products, often driven by affordability constraints, limited consumer awareness, information asymmetry, profit motives, and import dependence, circulate widely through formal, informal, and temporary markets. Substandard goods fail to meet established quality and safety standards, while counterfeit products imitate legitimate brands, undermining consumer trust and brand credibility. Regulatory frameworks exist, including the Bhutan Standards Act, Consumer Protection Act, and intellectual property laws, but enforcement is often reactive, complaint-driven, and limited by market size and resource constraints. The Competition and Consumer Affairs Authority emphasize a risk-based, consumer-focused approach, prioritizing interventions where health, safety, or deception is involved, while allowing consumers informed choice for non-hazardous, lower-cost alternatives. Strengthened inter-agency coordination, clear monitoring responsibilities, mandatory standards and certification, and public awareness campaigns are recommended to enhance market transparency, safeguard public health, and promote fair, competitive trade in Bhutan.

1. Introduction

The presence of substandard, inferior and counterfeit products in Bhutanese markets poses growing concerns for consumer protection, market integrity and fair competition. These products fail to meet quality and safety standards or imitate legitimate brands, often driven by affordability constraints, information asymmetry, and profit-oriented practices. As an import-dependent economy, Bhutan is particularly vulnerable to such goods entering through regional supply chains and informal channels. While lower-priced products appeal to price-sensitive consumers, their widespread availability raises concerns regarding safety, reliability and unfair competition. Counterfeit and copyright-infringing goods further undermine legitimate businesses and distort market dynamics.

This study by the Competition and Consumer Affairs Authority (CCAA) examines the drivers, consumer impacts and market practices associated with these products to inform policy and strengthen consumer protection.

2. Objectives

The study is guided by the following objectives:

- Examine the key economic, structural, market and consumer-related factors contributing to the presence of substandard, inferior and counterfeit products in Bhutan.
- Propose actionable policy and regulatory measures to strengthen consumer protection, enhance market integrity, and promote fair competition.

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3. Literature Review

3.1 Defining Substandard, Inferior, and Counterfeit Goods

Substandard goods are products that fail to meet established quality, safety, or performance standards (WHO, 2017), often entering markets due to weak enforcement, poor quality control, limited consumer awareness and information asymmetry. These may include falsified products with deliberately altered composition, as well as low-quality goods resulting from inadequate manufacturing practices (Utarov et al., 2022).

Counterfeit products further complicate the market by imitating legitimate brands, making it difficult for consumers to distinguish genuine from fake goods and undermining brand credibility (Bian & Moutinho, 2009). The widespread availability of such products influences consumer behaviour. Limited access to reliable product information and market transparency leads some consumers to choose cheaper alternatives, while others unknowingly purchase inferior or counterfeit goods (UNCTAD, 2020).

3.2 Contributing Factors

3.2.1. Affordability and Income Constraints

Consumers with limited income often prioritize affordability over quality when making purchasing decisions. As noted by Mankiw (2021), low-income households tend to choose cheaper alternatives even if these products offer lower durability or safety standards. Consequently, in markets with a high proportion of price-sensitive consumers, demand for lower-quality goods is sustained, as price becomes the primary determinant of purchasing behavior. According to the National Statistics Bureau of Bhutan (2023), the country's GDP per capita was Nu 301,289.48 (US\$3,833.03) in 2022, equivalent to approximately Nu 25,100 per person per month. With an estimated 60–80% of monthly income spent on essential needs, the remaining disposable income for consumer goods is relatively limited, averaging around Nu 4,000 per person per month. Given these constraints, consumers are more likely to prioritize affordability over quality when purchasing everyday items such as soap, cosmetics, clothing, and footwear.

3.2.2. Information Asymmetry and Deception

Information asymmetry is a major factor enabling inferior goods to enter and persist in markets, arising when sellers possess more knowledge about product quality than buyers, creating opportunities for misrepresentation (Liu, 2020). Akerlof's (1970) "lemons theory" explains that when consumers cannot accurately assess quality, they may avoid paying higher prices, allowing lower-quality goods to dominate. Deceptive practices such as hidden defects, false claims, and misleading pricing further reinforce this dynamic, as sellers act strategically to maximize profits (Gneezy, 2005; Heidhues et al., 2019). When consumers have limited awareness and verification mechanisms are weak, these practices sustain the circulation of substandard and counterfeit products. In Bhutan, reliance on visual cues like packaging or branding without access to reliable product information increases the likelihood of consumers unknowingly purchasing inferior or counterfeit goods, maintaining market demand for such products.

3.2.3 Limited Consumer Awareness and Imperfect Consumers

Consumers who lack knowledge about product standards, labeling requirements, or their legal rights are more vulnerable to purchasing substandard or counterfeit goods (Deng et al., 2025). The Organization for Economic Co-operation and Development emphasizes that limited consumer awareness can increase the likelihood of fraud, deceptive marketing practices, and the sale of unsafe products (OECD, 2016). Without adequate knowledge about product safety standards, consumers may unintentionally support markets for inferior goods.

3.2.4 Profit Motive Over Quality

Businesses may also prioritize profit maximization over maintaining product quality. Firms can reduce production costs and increase profit margins by using cheaper materials, minimizing quality control procedures, or avoiding regulatory compliance costs. While these strategies may increase short-term profitability, they can lead to the production and distribution of substandard goods. According to Juran and Godfrey (1999), poor quality management practices can result in a “cost of poor quality,” where businesses benefit financially in the short term but create long-term economic inefficiencies and consumer harm.

3.2.5 Trade Fairs and Temporary Market Spaces in Bhutan

In Bhutan, trade fairs are commonly organized to promote local entrepreneurship, support small and medium enterprises and provide market access for producers. These events often attract vendors from different regions, including neighboring countries. While trade fairs encourage economic activity and market participation, regulatory oversight can sometimes be challenging due to the temporary nature of these markets and the large number of participating sellers. Research on informal and temporary markets suggests that weaker monitoring and inspection mechanisms can increase the risk of unregulated or low-quality goods entering the market (UNCTAD, 2017). In such environments, ensuring compliance with product labeling, safety standards, and quality requirements may become more difficult.

3.2.6 Discount and Sales Shops

Discount and clearance shops can contribute to the circulation of substandard goods by attracting consumers with significantly reduced prices, encouraging price-sensitive buyers to prioritize affordability over quality. Kotler and Keller (2016) note that discounts strongly influence purchasing decisions, as buyers focus on immediate savings rather than product evaluation. These outlets often sell overstocked, outdated, or lower-quality goods that may not meet regular retail standards. Research also shows that perceived economic gains from discounts can reduce attention to durability, safety, or authenticity (Blattberg & Neslin, 1990). Consequently, discount environments may unintentionally facilitate the distribution of inferior products, especially where inspection and consumer awareness are limited.

4. Existing Regulatory Framework

Bhutan’s regulatory framework for imports and sales is based on multiple laws and institutions but lacks specific provisions addressing inferior goods, creating a regulatory gap.

- The Bhutan Standards Act 2010 empowers the Bhutan Standards Bureau (BSB) to set mandatory product standards, conduct inspections and restrict non-conforming goods.
- The Customs Act 2017 governs import procedures and intercepts unsafe consignments but focuses mainly on procedural compliance and does not explicitly cover substandard, inferior or counterfeit products.
- Trade and Industry Rules 2023 regulate licensing and trade practices without provisions for monitoring low-quality goods.
- The Consumer Protection Act 2012 promotes fair business practices and redress mechanisms but only prohibits substandard goods when they pose health risks or involve deception.
- Intellectual property protection under the Industrial Property and Copyright Acts (2001) is largely complaint-driven, limiting proactive enforcement against counterfeit products.

Despite the presence of these legal instruments, challenges remain in practical enforcement. The absence of targeted provisions specifically addressing inferior goods, combined with limited proactive enforcement mechanisms for counterfeit and pirated products, allows such goods to persist in the market.

5. Factors Driving the Presence of Such Products in Bhutan

The presence of substandard, inferior and counterfeit or pirated products in Bhutanese markets can be attributed to a combination of structural, economic, and market-related factors.

5.1. Import Dependence and Regional Supply Dynamics

Bhutan is a highly import-dependent economy, with a significant proportion of consumer goods sourced from neighboring countries. These regional markets often produce goods across a wide spectrum of quality and price ranges, including low-cost and lower-quality alternatives. As Bhutan relies on these supply chains, products of varying standards, including substandard and counterfeit items, can enter the domestic market, particularly where affordability is a key consideration for consumers.

5.2 Limited Market Size and Intellectual Property Enforcement Constraints

Enforcement of intellectual property violations in Bhutan largely depends on complaints from rights holders, with agencies like customs and the Department of Media, Creative Industry and Intellectual Property (DoMCIIP) acting only on reported cases. Without such complaints, detecting and addressing counterfeit or pirated goods is challenging, especially when they pose no immediate health or safety risks. Limited resources and the need to prioritize high-risk cases further constrain proactive enforcement, allowing some infringing products to persist in the market.

5.3. Price Sensitivity and Consumer Demand

A large segment of consumers in Bhutan is price-sensitive, which creates demand for more affordable products. Lower-priced goods, even if of inferior quality, are often preferred due to income constraints. This demand incentivizes suppliers to import and distribute cheaper alternatives, including substandard or imitation products.

5.4. Information Asymmetry

Consumers may not always have adequate information to distinguish between genuine and counterfeit or high- and low-quality products. In such cases, purchasing decisions are often based on price, packaging, or brand appearance, which can be misleading. This information gap allows inferior and counterfeit goods to circulate more easily in the market.

5.5. Market Structure and Scale

Bhutan's small market size can limit the presence of authorized distributors and official brand representatives. As a result, supply chains may involve multiple intermediaries, increasing the risk of non-authentic or lower-quality products entering the market. Additionally, limited direct oversight from brand owners may reduce active monitoring of counterfeit goods.

5.6. Informal and Evolving Market Channels

The growth of informal trade, temporary markets such as Trade Fairs, and online selling platforms can make it more difficult to monitor and regulate all points of sale. These channels may facilitate the entry and distribution of substandard and counterfeit goods due to limited traceability and oversight.

5.8. Profit Incentives for Businesses

Businesses may be incentivized to supply lower-cost goods to remain competitive and meet consumer demand. In some cases, this may include sourcing products with lower production costs, which may not always meet established quality standards.

6. CCAA's Regulatory Position

The CCAA adopts a risk-based and consumer-focused approach in monitoring market practices. While the presence of substandard, inferior, or counterfeit products in the market is a concern, regulatory intervention by the CCAA is primarily guided by the extent to which such products compromise consumer health and safety, or involve deceptive and unfair trade practices. The CCAA places greater emphasis on preventing misleading representations, false information, and unfair pricing practices. Where businesses falsely present substandard or inferior products as being of superior quality, or charge higher prices through deception, such practices constitute a violation of consumer protection principles and are subject to regulatory action. Conversely, in situations where consumers knowingly opt for lower-priced or lower-quality alternatives without being misled, the matter is treated within the broader context of consumer choice and market dynamics. This approach recognizes that markets often cater to diverse consumer segments with varying purchasing capacities and preferences.

As such, the existence of lower-cost and lower-quality goods does not in itself constitute a violation, provided that consumers are not deceived and are able to make informed decisions. At the same time, the CCAA works in coordination with relevant regulatory agencies where product-specific standards and restrictions are in place. For instance, in cases where the Bhutan Standards Bureau (BSB) has imposed restrictions, such as the requirement for certified construction materials, the CCAA plays a complementary role by monitoring compliance at

the retail level to ensure that such regulated products meet the prescribed standards. Overall, the CCAA's current approach seeks to balance consumer protection with market realities by focusing on transparency, fairness, and informed consumer choice, while supporting broader regulatory efforts to safeguard health, safety, and product quality.

7. Recommendation

7.1. Inter-Agency Coordination

All relevant agencies including the Bhutan Standards Bureau (BSB), Department of Revenue and Customs, Department of Trade, Department of Industry, Ministry of Health, DoMCIIP, and CCAA, should coordinate to identify, categorize, and maintain a list of substandard or inferior products, prioritizing those posing health or safety risks. Agencies should jointly develop mandatory standards and certification systems, building on BSB's existing frameworks for construction and electrical goods, ensuring all regulated products meet minimum quality and safety requirements. Clear roles for monitoring, inspection and enforcement should be defined.

7.2 Regulation of Non-Hazardous Inferior Products

Inferior products that do not pose direct health or safety risks may be sold to reflect consumer choice, but businesses must provide accurate information, labeling and specifications. The CCAA will monitor compliance and take action such as warnings, penalties, or product removal against misleading or false claims, balancing consumer freedom with protection against deception.

7.3 Consumer Awareness and Reporting

Consumers should be educated on identifying substandard, inferior, or counterfeit products, including recognizing misleading claims, checking certifications, and understanding quality indicators. Reporting mechanisms should be established to allow consumers to alert CCAA or relevant agencies. Public awareness campaigns via media, community outreach, and digital platforms can promote knowledge of rights, remedies, and redress mechanisms, empowering consumers, improving market transparency, and discouraging the sale of non-compliant goods.

8. Conclusion

The availability of substandard, inferior and counterfeit goods in Bhutan results from the interplay of import dependence, consumer demand, market structure and supply chain dynamics. Products that pose health or safety risks or involve deception require immediate regulatory attention, while lower-quality goods that do not endanger consumers may circulate to reflect market choice. Accurate labeling and access to reliable product information are critical for informed decisions. Strengthened inter-agency coordination, clear monitoring responsibilities, and mandatory standards and certification, building on BSB's frameworks, will improve oversight. Combined with consumer education and coordinated enforcement, these measures can safeguard public health, promote fair trade, and ensure a transparent, competitive market where consumers can make informed choices.

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