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CLIMBING THE GREAT WALL: A GUIDE TO INTELLECTUAL PROPERTY ENFORCEMENT IN THE PEOPLE'S REPUBLIC OF CHINA

Alexander C. Chen[*]

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I. INTRODUCTION

A. *The Significance Of China's Infringement*

Why should U.S. practitioners be concerned with enforcing intellectual property rights in China? First, U.S. businesses lost over one billion dollars in sales in 1994 and at least $2.3 billion in 1995 as a result of intellectual property piracy in China.[1] Chinese factories sold thousands of counterfeit compact discs, laser discs, CD-ROMs, motion pictures, Procter & Gamble shampoo, Gillette® razor blades, Kelloggs® corn flakes, Shell® motor oil, Lacoste® Crocodile shirts, Marlboro® cigarettes, and Nike® sneakers, among other items.[2]

Second, China is rapidly developing into a major economic power. In 1995, China's total exports reached $148.8 billion, up from $121 billion in 1994,[3] and yielded a trade surplus with the United States of between $23 and $38 billion.[4] The trade surplus is expected to reach $50 billion by the end of 1996.[5] China's economy is projected

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[1] Steve Mufson, *In Fight for Intellectual Rights in China, Pirates Still Winning*, WASH. POST, Feb. 18, 1996, at A29; Kathy Chen, *China and U.S. Avert Trade War Over Copyrights*, ASIAN WALL ST. J., June 18, 1996, at 1.

[2] Mufson, *supra* note 1.

[3] *Digest*, WASH. POST, Jan. 13, 1996, at C1.

[4] Mufson, *supra* note 1. China contends, however, that the trade surplus is $8 billion. *China Rejects U.S. Concerns over Copyright, Trade Deficit*, Agence France-Presse, Feb. 1, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3797874.

[5] Helene Cooper and Marcus W. Brauchli, *U.S. Threatens Sanctions Against China In Reprise of Last Year's Copyright Fight*, WALL ST. J., Jan. 23, 1996, at A2.

inventions. There was no private intellectual property right. Inventions and creative works belonged either to the emperor or to society as a whole.[10] If anyone owned the rights to an invention, it was the government.[11]

Another reason for rampant infringement in China is insufficient market access: U.S. goods are either too expensive or unavailable for many Chinese consumers.[12] China's central government is partially to blame for this problem because it sets informal trade quotas on the number of foreign consumer products imported into China. For instance, before June, 1996, China only allowed ten U.S.-produced motion pictures to enter China per year.[13] As a result of these quotas, many Chinese consumers buy pirate-manufactured goods.[14]

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[10] WILLIAM P. ALFORD, TO STEAL A BOOK IS AN ELEGANT OFFENSE: INTELLECTUAL PROPERTY LAW IN CHINESE CIVILIZATION 12-13, 20 (1995).

[11] For the purposes of this article, "invention" will describe all things protected under patent, copyright, and trademark laws. Likewise, "inventors" will describe scientists, authors, artists, musicians, etc.

[12] Interview with Professor Andy Y. Sun, Professorial Lecturer in Law, The George Washington University Law School, in Washington, D.C. (Apr. 9-10, 1996) [hereinafter Interview with Professor Sun]. The author expresses special thanks to Professor Sun for explaining the Chinese court system and discussing other ideas presented in this article.

[13] MOTION PICTURE ASSOCIATION, TRADE BARRIERS TO EXPORTS OF U.S. FILMED ENTERTAINMENT: 1995 REPORT TO THE UNITED STATES TRADE REPRESENTATIVE 152 (1995).

[14] Derek Dessler, *China's Intellectual Property Protection: Prospects for Achieving International Standards*, 19 FORDHAM INT'L L.J. 181, 230 n.440 (1995) (citing Letter from James L. Bikoff, Esq., Arter & Hadden, to Irving A. Williamson, Chairman, Section 301 Committee, Office of the U.S. Trade Representative 2 (Aug. 9, 1994)).

a tremendous boost to China's struggling economy.[18] In the last twenty years, however, China's central government has learned the economic value of protecting intellectual property: it is the key to attracting foreign investment.

When China began to enforce foreign patents, copyrights, and trademarks, a conflict of interest developed between the people and the central government. Long-accepted Chinese traditions clashed with Western ideologies and their demand for intellectual property protection. Today, there is still a strong tension between some Chinese authorities who benefit from pirate industries and the central Beijing government, which is trying to eliminate those industries.[19]

A final reason for China's enforcement problem is insufficient government funds. China's Patent Office and National Copyright Administration are under-staffed, under-funded, and lack the technical expertise to effectively combat both large-scale pirate operations and individual infringers.[20]

The purpose of this article is to (1) provide U.S. practitioners with a survey of China's perception of intellectual property rights,[21] (2) illustrate the progress that China has made in enforcing those

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[18] Arthur Wineburg, *Crying The Blues: Why The U.S. Shouldn't Expect China To Honor Intellectual Property Rights Agreements*, CHI. TRIB., Mar. 23, 1995, at 19.

[19] UNITED STATES TRADE REPRESENTATIVE, 1994 NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS 51, 52 (1994).

[20] *Id.* at 51; Deborah Lehr, Speech on U.S.-China Trade Negotiations and Outlook at The George Washington University Law School (Apr. 5, 1995) (Deborah Lehr is the Director of China and Mongolian Affairs at the U.S. Trade Representative Office and a key negotiator in the Action Plan discussions).

[21] This article will focus primarily on patents and copyrights.

discoveries, and creative works.[23] The king or emperor, who had a fiduciary relationship to the people, was responsible for keeping blasphemous and unworthy ideas from the people.[24] The only personal rewards for creative achievements were public recognition and endowments from the emperor.[25] Seldom, if at all, was there a right to exclude others from copying one's inventions and artistic works. If the king liked a particular invention or creation, he might endorse the inventor or artist and protect the work.[26]

Two prevalent Chinese philosophies, the teachings of Confucianism and Taoism ("The Way"), further emphasized community development, and not individual profit.[27] Learning was not an individual pursuit, it was a community goal. Taoism encouraged social totality, harmony, and balance.[28] Confucianism shunned the idea of personal reward at the expense of others.[29]

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[23] Amy E. Simpson, *Copyright Law and Software Regulations in the People's Republic of China: Have the Chinese Pirates Affected World Trade?*, 20 N.C. J. INT'L L. & COM. REG. 575, 578 n.23, 581 & n.34 (1995); ZHENG CHENGSI & MICHAEL D. PENDLETON, CHINESE INTELLECTUAL PROPERTY AND TECHNOLOGY TRANSFER LAW 51 (1987) [hereinafter ZHENG & PENDLETON].

[24] ALFORD, *supra* note 10, at 20.

[25] Simpson, *supra* note 23, at 581; Laurence P. Harrington, *Recent Amendments to China's Patent Law: The Emperor's New Clothes*, 17 B.C. INT'L & COMP. L. REV. 337, 342 (1994).

[26] Interview with Professor Sun, *supra* note 12.

[27] Philip H. Lam, *Copyright Protection of Foreign Computer Software in the People's Republic of China: Significant Progress in Two Years*, 17 LOY. L.A. INT'L & COMP. L.J. 861, 867 (1995).

[28] *Id.*

[29] Simpson, *supra* note 23, at 581.

China promulgated its first patent act to reward inventors.[35] In 1910, the first written national statute on copyrights was enacted by China's Emperor.[36] But in 1949, all intellectual property statutes were abolished when the Communists came into power.[37]

It is interesting to note that under both the old monarchy and the Communist forms of government, individual property rights did not exist. Under the monarch system, the emperor owned everything; under Communism, the state owns everything. Nevertheless, before Communism replaced China's monarchy, the notion of intellectual property was beginning to emerge. But when the Communists took over, the notion of intellectual property rights missed its window of opportunity in China.

The contrast can now be drawn between the United States and China. Before the American Revolution, the notion of intellectual property already existed in Europe. As a result, intellectual property rights were recognized in the thirteen American colonies and subsequently embedded in the U.S. Constitution in 1789.[38] China, on the other hand, with a history spanning five thousand years instead

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[35] *Id.* at 19.

[36] MELVILLE B. NIMMER & PAUL EDWARD GELLER, 1 INTERNATIONAL COPYRIGHT LAW AND PRACTICE--CHINA § 1[1] (1995).

[37] *Id.* § 1[2].

[38] U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."); *see generally* BRUCE W. BUGBEE, THE GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW (1967).

laws, it was difficult for legitimate Chinese inventors to make a profit in China. In the 1970s and 1980s, Chinese inventors were filing an increasing number of patent applications in the United States, United Kingdom, European Patent Office, Japan, and Australia.[45] Even when Chinese inventors secured patents abroad, pirate operations in China could copy the inventions and sell the same products for less money. With stronger patent and copyright protection, China realized it could capitalize on its own national talent.

From 1980 to 1983, China sent dozens of emissaries with legal, scientific, and political backgrounds to study the patent laws and practices of various developed countries.[46] Many of the features these emissaries found in contemporary foreign laws are contained in the Patent Law of the People's Republic of China ("Patent Law"), adopted in 1984. Such features include: (1) the establishment of the Chinese Patent Office;[47] (2) the recognition of three types of patents;[48] (3) the recognition of rights to assignment, exclusive use, and licensing;[49] and

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[45] ZHENG & PENDLETON, *supra* note 23, at 53.

[46] Harrington, *supra* note 25, at 345.

[47] Patent Law, *supra* note 39, ch. I, art. 3, at 14,201. The purpose of this article is to introduce certain important features of China's patent and copyright laws and compare them to U.S. laws. This article will not discuss every provision of China's laws because there are other sources that already provide that discussion. *See, e.g.*, MICHAEL D. PENDLETON, INTELLECTUAL PROPERTY LAW IN THE PEOPLE'S REPUBLIC OF CHINA (1986); Harrington, *supra* note 25; David Hill and Judith Evans, *Chinese Patent Law: Recent Changes Align China More Closely With Modern International Practice*, 27 GEO. WASH. J. INT'L L. & ECON. 359 (1993-1994).

[48] Patent Law, *supra* note 39, ch. II, arts. 22-23, at 14,207-211.

[49] *Id.* ch. I, art. 10, at 14,203; *id.* ch. VII, art. 60, at 14,227; *id.* ch. I, art. 12, at 14,205.

certification marks.[57] Marks are protected for a ten-year period, which may be extended for another ten-year period.[58] In 1989, China acceded to the Madrid Agreement Concerning the International Registration of Marks.[59]

C. *Early Criticism*

In the 1980s and 1990s, U.S. observers attacked China's legal system for the widespread corruption and inconsistent enforcement of its intellectual property laws.[60] While other developing countries, such as Russia and Turkey, were also allowing intellectual property infringement to go unpunished,[61] the loss of foreign business from infringing acts in those countries was probably insignificant compared to that in China with its large production capabilities and its well-established trade routes to Japan, Hong Kong, Korea, and Europe.

A common U.S. complaint was that Chinese courts did not grant adequate damages or permanent injunctions.[62] For instance,

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[57] Trademark Law of the People's Republic of China (1982), as amended by Decision of the Standing Committee of the National People's Congress Concerning Amendments to the Trademark Law (1993), *translated in* 2 China Laws for Foreign Business, Business Regulation (CCH) ¶ 11-500, at 14,001-65 (1993) [hereinafter Trademark Law].

[58] *Id.* arts. 23-24, at 14,055.

[59] Paul B. Birden, Jr., *Technology Transfers to China: An Outline of Chinese Law*, 16 LOY. OF L.A. INT'L & COMP. L.J. 413, 416 (1994).

[60] *See High-Tech Hijackers--Software Firms Deserve Protection from Pirates*, THE SEATTLE TIMES, Dec. 18, 1991, at A6.

[61] *See U.S. Copyright Industries Call for Sanctions on China*, Agence France-Presse, Feb. 20, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3808314.

[62] *See* Mufson, *supra* note 1.

the doctrine of equivalents and prosecution history estoppel, while other courts did not.[68] In fact, many of these problems remain today.

Second, the courts and officials were asked to prosecute businesses that essentially made up entire local economies.[69] Shutting down factories meant depriving communities of hundreds of jobs. Government authorities naturally favored their own citizens, who were simply trying to make a living, over U.S. corporations that sought to increase profits. Loyalty to their own citizens often outweighed foreign profit interests. In most cases, U.S. companies had to settle for compulsory licenses: Chinese manufacturers could go on with their business, but they had to pay a nominal royalty to U.S. patent and copyright owners.[70]

Third, China's cultural traditions made it difficult for the central government to enforce intellectual property rights. China's new laws were enacted to change the political and economic structure.[71] Usually, laws are enacted in response to the opinions and beliefs of the people, not in response to foreign pressure. A conflict occurs when the people do not share the same view as the central government. With the growth of capitalism in China, quick profits made from selling counterfeit products often spoke louder than U.S. protests. Beijing appreciated the significance of international trade and foreign investment, but many citizens did not share the same appreciation.[72]

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[68] *Id.*

[69] ALFORD, *supra* note 10, at 91-92.

[70] McKeown & Kiang I, *supra* note 63, at 26.

[71] Harrington, *supra* note 25, at 369.

[72] *See* Cox I, *supra* note 17.

also promised to amend its laws to conform with international standards, like protecting unpublished foreign works.[75]

Some U.S. observers criticize China for signing the MOU in the eleventh hour before the United States levied trade sanctions against China.[76] It is true that the U.S. Trade Representatives did threaten to double import tariffs on Chinese imports if China failed to commit to reforms by January 17, 1992.[77] But even before the United States threatened to use trade sanctions, Chinese officials had shut down seven counterfeiting factories while targeting twenty-two others.[78] Chinese authorities also raided forty-seven retail outlets that sold pirated goods.[79]

1. Patents

Seven months after the MOU was signed, China amended its Patent Law and revised its Implementing Regulations of the Patent Law.[80] China's rapid implementation of the MOU provisions demonstrated China's commitment to protecting foreign intellectual property. On its own initiative, China also enacted amendments that went beyond the provisions of the MOU, such as adding a twelve-

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[75] Simpson, *supra* note 23, at 590.

[76] Wineburg, *supra* note 18.

[77] Harrington, *supra* note 25, at 358.

[78] McKeown & Kiang I, *supra* note 63, at 24.

[79] *Id.*

[80] Implementing Regulations of the Patent Law of the People's Republic of China (1992), *translated in* 2 China Laws for Foreign Business, Business Regulation (CCH) ¶ 11-603, at 14,263-337 (1993) [hereinafter Patent Law Implementing Regulations].

a six-month statutory limit on the time period in which the public can challenge a patent's validity.[89]

In 1992, China also signed the Patent Cooperation Treaty.[90] China was a founding member of the General Agreement on Tariffs and Trade ("GATT") but it withdrew its membership when the communists came to power.[91] Since 1986, China's attempt to rejoin GATT and its successor organization, the World Trade Organization ("WTO"), has been blocked by the United States.[92]

2. Copyrights

The Copyright Law of the People's Republic of China was adopted in 1991 after twenty drafts and eleven years of proposals.[93] The Copyright Law provides five exclusive rights: (1) the right of publication, (2) the right of authorship, (3) the right of alteration, (4) the right of integrity, and (5) the right of exploitation and the right to remuneration.[94] Like many European countries, but unlike the United States, China protects an author's moral rights: the rights of

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[89] *Id.* ch. V, art. 48, at 14,223.

[90] Hill & Evans, *supra* note 47, at 361; Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645, 1160 U.N.T.S. 231.

[91] *China Says "Excessive Demands" Hamper Its WTO Accession*, ASIAN ECON. NEWS, Dec. 16, 1996, *available in* WESTLAW, Allnews database, 1996 WL 11535345; General Agreement on Tariffs and Trade, *opened for signature* Oct. 31, 1947, 61 Stat. A3, 55 U.N.T.S. 187.

[92] *China Says "Excessive Demands" Hamper Its WTO Accession*, *supra* note 91; Simpson, *supra* note 23, at 625.

[93] Simpson, *supra* note 23, at 587.

[94] Copyright Law, *supra* note 40, ch. II, sec. 1, art. 10, at 14,565.

determining whether the fair use defense may be claimed,[98] but this list is not exhaustive. Moreover, U.S. courts determine fair use situations by balancing the four factors provided in section 107 of the Copyright Act.[99] The Chinese Copyright Law does not list any factors for its courts to balance.[100]

In 1991, China also adopted Regulations on Computer Software Protection to specifically address the issue of software protection.[101] Like the Copyright Law, the Software Regulations provide moral rights and economic property rights.[102] Unlike the Copyright Law, however, the term of protection is twenty-five years after first publication, plus another twenty-five years upon renewal.[103] There is no time limit on the term of protection for a developer's right of identity.[104] Like the Patent Law, lack of intent is a defense to

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[98] These factors include: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. 17 U.S.C. § 107 (1994).

[99] *Id.; see* Campbell v. Acuff-Rose Music, Inc., 114 S. Ct. 1164, 1170-71 (1994).

[100] Copyright Law, *supra* note 40, ch. II, sec. 4, art. 22, at 14,573-575.

[101] Computer Software Protection Rules (1991), *translated in* 2 China Laws for Foreign Business, Business Regulation (CCH) ¶ 11-704, at 14,681-709 (1993) [hereinafter Software Protection Regulations].

[102] *Id.*, ch. II, art. 9, at 14,685.

[103] *Id.*, ch. II, art. 15, at 14,687.

[104] *Id.*, ch. II, art. 9(2), at 14,685.

Convention.[112] At first glance, it appears that China followed the Berne Convention and granted national treatment to foreign authors. But the International Copyright Treaties Regulations actually offer broader protection to foreign authors than to China's own authors.[113]

In 1994, China also provided criminal penalties for copyright infringement, including imprisonment for up to seven years.[114]

3. The February 26, 1995 Action Plan

In the years after the MOU was signed, U.S. businesses again claimed that enforcement was too slow and inadequate. They admitted that China had enacted "some of the most advanced intellectual property rights laws in Southeast Asia."[115] But the problem was with the enforcement of those laws, particularly China's copyright law on computer software, musical recordings, and motion pictures.

From 1993 to 1994, U.S. Trade Representative Mickey Kantor moved China from the "watch list" to the "priority watch list" to the "priority foreign country" category under the U.S. Omnibus Trade and Competitiveness Act ("Omnibus Act").[116] Under the Omnibus Act's

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[112] *Id.*, art. 3, at 14,661.

[113] Yu, *supra* note 67, at 143-44.

[114] Decision of the Standing Committee of the National People's Congress Concerning Punishment of the Crime of Copyright Infringement (1994), *translated in* 2 China Laws for Foreign Business, Business Regulation (CCH) ¶ 11-701, art. I, at 14,597 (1995) [hereinafter Decision Concerning Punishment of the Crime of Copyright Infringement].

[115] Wineburg, *supra* note 18.

[116] Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107; Hill & Evans, *supra* note 47, at 362.

It is important to note that the Action Plan was neither a treaty, an accord, a bilateral agreement, nor an executive order, as some U.S. observers may believe.[123] It was an exchange of letters from the Chinese Minister of Foreign Trade and Economic Cooperation to the U.S. Trade Ambassador Mickey Kantor.[124] China chose this form of agreement because it wanted to preserve its sovereign dignity--Chinese officials did not like the appearance of China ungracefully yielding to U.S. demands.[125] Both sides wanted to create the impression that China was acting on its own initiative to correct an internal problem, absent external pressure. China agreed to improve intellectual property enforcement, and the United States agreed to help China implement this enforcement.

Under the Action Plan, China agreed to shut down all illegal counterfeit CD factories by July 1, 1995, and to destroy any equipment used to make these goods.[126] Among other things, China also agreed to remove quotas on imported U.S. audiovisual products,[127] establish enforcement task forces to investigate, seize, and destroy counterfeit goods, and impose fines,[128] provide stricter border control to seize pirate-manufactured exports,[129] enforce multi-jurisdiction enforcement

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[123] *See* Dessler, *supra* note 14, at 182 (calling the Action Plan the "1995 U.S.-China Intellectual Property Rights Accord").

[124] Action Plan, *supra* note 121.

[125] Interview with Professor Sun, *supra* note 12.

[126] Action Plan, *supra* note 121, at 882.

[127] *Id.* at 883.

[128] *Id.* at 890 (art. I(B)).

[129] *Id.* at 900 (art. I(G)).

Trademark Office,[137] the U.S. Department of Justice, and the Federal Bureau of Investigation.[138]

4. Impact Of The Action Plan

The Action Plan won immediate praise from several U.S. industries, including the computer software, auto manufacturing,[139] footwear,[140] and fashion industries.[141]

Even though many U.S. business leaders considered the Action Plan a victory for the United States, the broad scope of protection under the Action Plan may benefit China's inventors and authors more than U.S. companies.[142] Each year, legitimate Chinese companies are driven out of business because they cannot compete with illegal pirate operations that copy their products. Unlike U.S. companies, most Chinese businesses lack overseas distribution capabilities and rely exclusively on sales to the domestic market. For instance, Warner Brothers was reluctant to sign recording contracts with Chinese musicians because such contracts are unprofitable with so many pirated CDs around.[143] On the other hand, U.S. record

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[137] *Id.*

[138] McKeown & Kiang I, *supra* note 63.

[139] *An Auto War with China?*, *supra* note 9.

[140] Jim Ostroff, *China Accord Wins Shoe Industry Praise*, FOOTWEAR NEWS, Mar. 6, 1995, at 2.

[141] Jim Ostroff, *Fashion Industry Cheers Trade Deal with China*, WOMEN'S WEAR DAILY, Feb. 27, 1995, at 2.

[142] Ralph Oman, *And The Winner Is . . . China*, 9 WORLD INTELL. PROP. REP. 147 (1995).

[143] Mufson, *supra* note 1.

software, and 480,000 copies of pirated publications were destroyed in 1995;[149] and seizure of counterfeit CD-ROM exports doubled.[150]

Moreover, China carried out its promise to assign two copyright inspectors to every CD factory to check the source, content, quality, and distribution of products.[151] China also fulfilled its promise under the Action Plan to allow U.S. companies to share theater revenues,[152] which grossed thirty million dollars last year.[153]

Some courts, including Beijing's First Intermediate People's Court, reported a drop in intellectual property infringement cases after the Action Plan was implemented. These courts attribute the decline in number of cases to a decline in the number of acts of infringement and credit the decline to success of the Action Plan.[154] Other Chinese courts, however, reported a rise in infringement

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[149] Michelle Koidin, *China Vows to Pursue Copyright Violations*, AUSTIN AM.-STATESMAN, Feb. 10, 1996, at C2.

[150] *Chinese Hit on Copyright Agreement and Lack of Antipiracy Actions*, AUDIO WEEK, Dec. 4, 1995, *available in* WESTLAW, Allnews database, 1995 WL 10140320 (quoting Deputy U.S. Trade Representative Charlene Barshevsky).

[151] *Inspectors to Check Chinese Audio, Video Plants for Copyright Piracy*, CHI. TRIB., Dec. 30, 1995, at 14 (quoting Wu Haitao, an official of the State Copyright Bureau).

[152] Action Plan, *supra* note 121, at 884.

[153] Mufson, *supra* note 1.

[154] *China-Intellectual Property Rights Cases Drop*, Newsbytes News Network, June 6, 1995, *available in* WESTLAW, Allnews database, 1995 WL 2208033.

sprung up.[162] China's top copyright official, Wang Huapeng, admitted in February, 1996, that ten out of thirty-four CD factories are probably still pirating foreign music. He notes, however, that China has punished the worst offenders.[163]

U.S. critics point to Guandong province as the worst offender. As home to some of the richest areas in China, Guandong has become a hot spot for foreign investment and also a "hotbed for piracy."[164] Guandong's own political authorities are increasingly resistant to decrees from Beijing.

Another major concern is China's failure to stop shipments of pirated products across its borders, particularly in the south.[165] In the fall of 1995, Hong Kong officials seized 100,000 pirated CD-ROMs produced in China, compared to 5,000 CD-ROMs seized for all of 1994.

U.S. officials say that while the pirating of music CDs has dropped, counterfeit software manufacturing is rising.[166] More disturbing is the fact that Chinese pirates are producing more "higher priced items," such as CD-ROMs and software packages, than ever

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[162] Cooper & Brauchli, *supra* note 5; *see also Kantor Renews Warnings to China on Imports, Copyright Laws*, Agence France-Presse, Jan. 17, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3789964 (reporting that there may be up to 36 "major plants producing such bootlegged goods in China").

[163] *China Rebuts Copyright Claim*, MILWAUKEE J. SENTINEL, Feb. 9, 1996, at 1.

[164] *China Vows to Halt Piracy Amid U.S. Tariff Threats*, STAR-LEDGER (Newark, N.J.), May 26, 1996, at 39.

[165] *Chinese Hit on Copyright Agreement*, *supra* note 150.

[166] Mufson, *supra* note 1.

The United States threatened to impose trade sanctions of $2.3 billion on Chinese exports to the United States if China failed to make immediate progress. China threatened to retaliate by imposing trade sanctions on U.S. products.

On June 17, 1996, after three months of threats, a bilateral agreement was signed. China agreed to specific enforcement measures while the United States agreed not to levy trade sanctions against China.[171] Specifically, China promised to revoke permits and business licenses of factories making counterfeit goods, ban the import of new CD presses and the opening of new CD factories, grant customs officers more power to inspect exports, station inspectors on CD production lines around the clock, and facilitate distribution and production deals for U.S. film and music companies. For example, China dropped its quota of ten new U.S. motion pictures entering China per year.[172]

The United States cited China's increased effort in the previous three months in closing fifteen pirate factories and launching police raids around the country as the reason for the new agreement.[173] For the first time, Beijing also brought in China's powerful Public Security Bureau (also Ministry of Public Security) to combat pirate

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[171] James Cox, *Police Were Catalyst in Halting Chinese Pirating of CDs*, Gannett News Service, June 19, 1996, *available in* WESTLAW, Allnews database, 1996 WL 4379909 [hereinafter Cox II].

[172] *Id.*

[173] Leu Siew Ying, *Chinese Business Leaders Welcome Resolution of Copyright Dispute*, Agence France-Presse, June 18, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3873502 [hereinafter Leu].

This new court would instill uniformity in intellectual property decisions for other courts to follow.

According to the Deputy Director of the Copyright Administration, China's five-year old Copyright Law is being revised and a national copyright protection center is planned.[179] These amendments will likely address ambiguities in the Copyright Law, such as which works "prejudice the public interests" and which works are "prohibited by law."[180] These changes are significant because, in a totalitarian government such as The People's Republic of China, there is no opposition to the central government's decision to ban certain publications that it finds inappropriate for the public.[181] For instance, China's Trademark Office refused to register the terms "Professional Assassin," "mafia," "American Indians," "Queen," and "Empire" because they are "detrimental to the socialist ethics or are likely to cause an unhealthy impact" or "feature colonial culture and serious unhealthy political tendencies."[182]

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[179] *China Announces New Measures for Copyright Protection*, Agence France-Presse, Feb. 3, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3799029.

[180] Copyright Law, *supra* note 40, ch. I, art. 4, at 14,563.

[181] Lam, *supra* note 27, at 873.

[182] *China Refuses Unsuitable Trademark Applications*, Xinhua News Agency, June 12, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3778861; *China Turns Down 50 Trademarks for Flaunting Decadent Values*, Agence France-Presse, Aug. 8, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3903405 (noting that China's State Administration for Industry and Commerce rejected registration to marks deemed to be "vulgar, feudalistic, bizarre[,] and absurd content or Western-sounding color").

estoppel and res judicata, are not the same in China as in the United States.[188]

Third, unlike the American judicial system, litigants in China only get one appeal.[189] A litigant can file a claim in either a Basic Court or an Intermediate People's Court, depending on which court accepts the case.[190] After a decision is rendered, the litigant gets one appeal, usually to the court immediately above the first court. The decision of the second court is final. If the case involves a very special issue or a significant national interest, the case may be tried by a High Court or even the Supreme People's Court.[191]

Fourth, China does not have the same liberal discovery rules as the United States. In China, the court, rather than the litigants, has the responsibility for discovering and collecting evidence.[192] Because neither party has enforceable rights to collect evidence, each side is often limited to reviewing the court's records.[193]

Fifth, the Board of Reexamination of China's Patent Office has the exclusive jurisdiction over a patent's validity. If a defendant in a

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[188] Interview with Professor Sun, *supra* note 12; *see* Yu, *supra* note 67, at 158.

[189] ZHENG & PENDLETON, *supra* note 23, at 7.

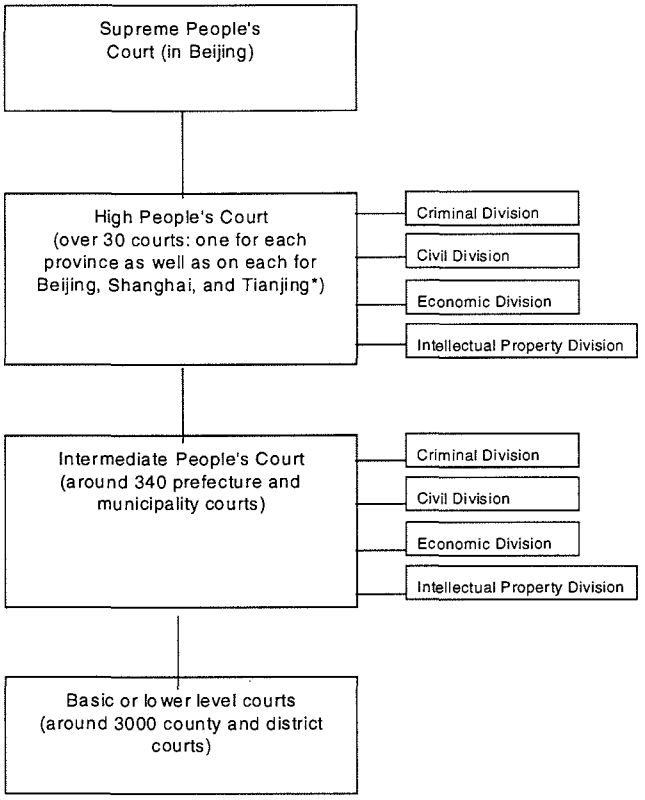
[190] *Id.* at 8-9 (noting that cases involving foreign affairs can only be tried and first heard by the Intermediate People's Court or higher level courts).

[191] *Id.* at 7-8.

[192] Code of Civil Procedure of the People's Republic of China (1991), *translated in* 3 China Laws for Foreign Business, Business Regulation (CCH) ¶ 19-201, ch. VI, art. 64-65, at 23,919 (1992).

[193] Dessler, *supra* note 14, at 228.

STRUCTURE OF CHINA'S JUDICIARY SYSTEM



*Beijing, Tianjing, and Shanghai are special cities that have their own court systems apart from the rest of their provinces.

over $15,000 in litigation costs.[206] The Beijing Intermediate People's Court appears to have been inspired by the 1995 Action Plan in assessing damages beyond nominal royalty fees.[207]

In the second decision, the Beijing Intermediate People's Court handed down China's first one million yuan ($120,000) judgment, the largest in China's history for intellectual property infringement.[208] The court found the defendant company guilty of infringing a patent covering one of China's most popular products: the Bailong mineral-water dispenser, which reputedly transforms tap water into refreshing mineral water. The court also ordered the defendant to pay most of the legal costs arising from the two-year lawsuit.[209]

In January, 1996, a Shanghai court granted 6.7 million yuan ($806,000) in compensatory damages against a Taiwanese businessman for pirating foreign compact discs in China.[210] The court also awarded the twenty-six plaintiffs, including Polygram records and Warner Music, 1.2 million yuan ($144,000) in fines and court fees.[211]

In general, it has become easier for U.S. litigants to file suits in Chinese courts. As a result of China's membership in several

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[206] Kenneth A. Cutshaw and Jianyi Zhang, *Intellectual Property Protection in China*, 8 INT'L Q. 49, 59 (1996) (citing Susan Orenstein, *Disney Duels with Chinese "Pirates" over Mickey*, LEGAL TIMES, July 25, 1994, at 2).

[207] *Id.*

[208] Parker, *supra* note 204.

[209] *Id.*

[210] *China Defends Its Fight on Piracy as Patent-Pact Deadline Nears*, ASIAN WALL ST. J., Feb. 2, 1996, at 3.

[211] *Id.*

multilateral treaties, U.S. litigants now enjoy national treatment,[212] which means they will be treated the same as Chinese litigants in China's courts. In particular, U.S. litigants are no longer required to pay $15,000 just to file a claim in Chinese courts.[213]

C. *The Administrative Authorities*

Unlike the United States, China's administrative authorities can adjudicate infringement actions and grant damages like China's courts.[214] The Administrative Authorities for Patent Affairs ("Patent Authorities") and the People's Courts share concurrent jurisdiction over patent infringement cases.[215] As of 1992, there were fifty-four officially recognized Patent Authorities in China.[216] These Patent Authorities can mediate disputes, conduct investigations, grant money damages, and order injunctions.[217] If a party is unhappy with the decision by the Patent Authorities, it has three months to institute proceedings in the People's Courts.[218]

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[212] McKeown & Kiang I, *supra* note 63.

[213] *Id.*

[214] Patent Law, *supra* note 39, ch. VII, art. 60, at 14,227.

[215] Hill & Evans, *supra* note 47, at 371.

[216] *Id.* at 372.

[217] Patent Law, *supra* note 39, ch. VII, art. 60, at 14,227.

[218] *Id.*

In the past, courts were reluctant to grant large damage awards and/or permanent injunctions.[200] In the 1990s, and especially after the Action Plan was signed, courts have sent a loud message to infringers that "China is serious about intellectual property rights."[201] For instance, in January, 1995, it was reported that the Guangzhou Intermediate People's Court and the Foshan City Intermediate People's Court closed three major ceramic factories for patent infringement.[202] The courts sealed up factory buildings and equipment and froze factory bank accounts. Chen Gouhui, the Vice-President of the Guangzhou Intermediate People's Court, said that Chinese courts want to "crack down on such violations" and "build confidence in research and development."[203]

In May, 1995, the Beijing Intermediate People's Court decided two landmark anti-piracy cases. The first decision awarded Walt Disney Company $27,360 in damages for unauthorized use of its copyrighted characters Mickey Mouse®, Cinderella, Peter Pan®, and Snow White.[204] The Disney case was the first publication copyright lawsuit filed by a U.S. company in the Intellectual Property Division of the Beijing Intermediate People's Court.[205] This award contrasts with an earlier copyright infringement case where Disney was awarded $91 in damages, a trivial amount considering Disney spent

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[200] *See supra* notes 62-65 and accompanying text.

[201] Koidin, *supra* note 149 (quoting Sun Zhenyu, Vice Minister of Foreign Trade).

[202] *Chinese Courts Move to Protect Patents*, 7 J. PROPRIETARY RTS. 32 (1995).

[203] *Id.*

[204] Jeffrey Parker, *Chinese Inventor Wins Patent Suit*, THE ORANGE COUNTY REGISTER, May 30, 1995, at C8.

[205] Simpson, *supra* note 23, at 604.

patent infringement case raises the issue of validity, it must be tried in a separate tribunal apart from the court.[194]

2. New Courts And Landmark Decisions

China's judiciary is changing dramatically to accommodate Beijing's tougher intellectual property enforcement policy. The Beijing High People's Court and the Beijing Intermediate People's Court are among the first courts to establish Intellectual Property Divisions that specialize in intellectual property law cases.[195] Since 1992, at least seven other major cities have also created Intellectual Property Divisions.[196] Today, there are nearly twenty Intellectual Property Divisions[197] and thirty-one special arbitration committees that handle technology contract disputes and intellectual property issues.[198] Despite the new courts, China is still struggling to train enough judges to understand the technology and China's new intellectual property laws.[199] The following figure depicts the structure of China's Judiciary System.

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[194] James A. Forstner, *Patent Litigation in Japan, China, and Korea, in* GLOBAL INTELLECTUAL PROPERTY SERIES 1993: SUCCESSFUL MULTI-COUNTRY PATENT LITIGATION STRATEGIES, at 13, 28-29 (PLI Pat., Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. G-366, 1993).

[195] Yu, *supra* note 67, at 147-48. Different articles refer to these intellectual property divisions by different names: intellectual property courts, chambers, branches, departments, etc. The label "intellectual property courts" may be misleading because they are not completely separate from the People's Courts. Thus, they will be referred to herein as divisions.

[196] McKeown & Kiang I, *supra* note 63.

[197] *China-Better Copyright Protection in Beijing?*, Newsbytes News Network, Feb. 24, 1996, *available in* WESTLAW, Allnews database, 1996 WL 7907357.

[198] Interview with Professor Sun, *supra* note 12.

[199] *See* Yu, *supra* note 67, at 160-61.

B. *The Judiciary*

1. The People's Courts

There are several differences between the Chinese and U.S. legal systems. First, the Chinese prefer to settle their disputes through mediation and arbitration rather than litigation, which they consider a means of last resort.[183] This preference was strengthened by 1949 Communist Revolution when most "scholars," including judges and attorneys, were either exiled or executed.[184] China, however, has been promoting private law firms and a stronger judicial system since 1976.[185]

Second, there is no stare decisis in China's judicial system--China is not a common law country.[186] Lower courts may give some weight to the decisions of higher courts, especially when the cases have similar fact patterns, but they are not bound by precedent. One court may grant significant damage awards while another court may grant only royalty fees for the same type of infringement. The decisions by the Supreme People's Court, however, are an exception. People's Courts will follow the Supreme Court's precedent when they hear cases that are similarly situated.[187] In addition, U.S. practitioners should be warned that other U.S. judicial concepts, like collateral

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[183] Hill & Evans, *supra* note 47, at 372.

[184] *Id.* ("[A]ll law schools were closed during the Cultural Revolution (1966-1976), and the legal profession ceased to exist.").

[185] *See infra* Section III.D (Practitioner and Grass Roots Changes).

[186] Interview with Professor Sun, *supra* note 12.

[187] ZHENG & PENDLETON, *supra* note 23, at 6.

operations.[174] The Public Security Bureau made its attack on piracy a part of a larger crackdown against crime.

Both U.S. and Chinese companies praised the new agreement.[175] Many U.S. companies, such as Motorola, Stanley, and FMC thanked China for investigating intellectual property violations and prosecuting pirates accordingly.[176] Some Chinese companies applauded the United States for raising the awareness of intellectual property in China and putting pressure on Beijing to improve protection. One Chinese software company said the pressure put on China by the United States every year helped the Chinese people understand the issue better.[177]

5. New Legislative Proposals

In his visit to the United States, the Chinese Patent Office Director General suggested that China might establish a specialized court similar to the U.S. Court of Appeals for the Federal Circuit.[178]

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[174] Cox II, *supra* note 171 (The Public Security Bureau, previously known for "hounding dissidents and beating confessions out of suspects," has "ridden to the rescue" in cracking down on pirate industries. One businessman was quoted as saying that "[i]n a month, they've been able to do things no one else has.").

[175] Leu, *supra* note 173 (quoting General Motor's chairman); Tempest, *supra* note 147 (quoting officials at Sony Inc., Time Warner, Polygram, and MCA).

[176] *China's Protection of Registered Foreign Trademarks in Force*, AsiaInfo Daily News Service, Aug. 7, 1996, at 4, *available in* WESTLAW, Allnews database, 1996 WL 10655318.

[177] Leu, *supra* note 173 (quoting Wang Haitao, an executive at Shenyang Neu-Alpine Software Co.).

[178] Slind-Flor, *supra* note 148, at B2.

before.[167] With the government cracking down on counterfeit goods, the stakes of conducting piracy are higher. Therefore, pirates have turned to more profitable items to stay in business. Some U.S. software manufacturers estimate that ninety-four percent of computer programs sold in China are pirated.[168]

Even China's own companies are victims of continued widespread infringement. Fortune Bird, a popular Chinese sneaker brand, has 1,000 illegal factories producing imitations. Sun Trendy, the maker of the first Chinese-language word processor program sold in China, is another prominent company hurt by pirate sales.[169]

Other U.S. critics assert that the Action Plan did not go far enough in meeting international standards. Specifically, these critics charge that the Action Plan and China's laws do not meet the international standards set by the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS").[170]

c. *The June 1996 Agreement*

A year after the Action Plan was signed, the United States asserted that China had failed to carry out its part of the Action Plan to improve intellectual property protection, especially in copyrights. China countered that it was following the Action Plan in good faith.

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[167] Tiffany Bown, *China Defends Clampdown on Copyright Piracy Before Sino-US Talks*, Agence France-Presse, Feb. 8, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3801484.

[168] Cox I, *supra* note 17.

[169] Mufson, *supra* note 1.

[170] Dessler, *supra* note 14, at 233-40; *see* The Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, *opened for signature* Apr. 15, 1994, 33 I.L.M. 81.

cases.[155] Overall, Chinese courts seem to be more receptive to the idea of increased damages and permanent injunctions.[156]

b. *Continuing problems*

Although some U.S. industries commend China for its good faith attempt to comply with the 1995 accord,[157] U.S. trade officials claim that China has failed to fulfill its obligations.[158] U.S. critics assert that China's raids and crackdowns on distributors are a sideshow. Most raids staged by the government are against retailers and "minor players." Moreover, the fines assessed are not enough to deter piracy.[159] The real culprits, namely the manufacturers, escape virtually unscathed.[160] At least six factories were shut down immediately after the Action Plan was signed, but four months later they were back in business.[161] Even worse, more factories have

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[155] *China Defends Its Fight on Piracy as Patent-Pact Deadline Nears*, ASIAN WALL ST. J., Feb. 2, 1996, at 3 (noting an official Xinhua news agency report that piracy suits handled by Chinese courts were up 35% in 1995 compared to 1994).

[156] *See infra* Section III.B (The Judiciary).

[157] Marcus W. Brauchli and Eduardo Lachica, *U.S., China Revisit Row over Copyrights*, ASIAN WALL ST. J., Jan. 23, 1996, at 1.

[158] *China Makes Progress on Enforcing Patents*, ASIAN WALL ST. J., Aug. 31, 1995, at 2.

[159] *Chinese Hit on Copyright Agreement*, *supra* note 150 (discussing the views of Steven Metalitz, Vice President of The International Intellectual Property Alliance).

[160] Mufson, *supra* note 1; *see also* John Gero and Kathleen Lannan, *Trade and Innovation: Unilateralism v. Multilateralism*, 21 CAN.-U.S. L.J. 81, 88 (1995).

[161] Mufson, *supra* note 1.

producers, software companies, and motion picture studios could survive without the Action Plan because they have an international market outside of China. With the new copyright protection in place, legitimate Chinese companies should have a better chance to succeed.

a. *Successes*

In the weeks leading up to the Action Plan, China shut down seven out of twenty-nine targeted factories that made counterfeit movies and CDs in Beijing's Zhongguacun District (China's "Silicon Valley"). In the process, two million tapes and CDs were destroyed, and 30,000 fake computer discs were confiscated.[144]

Since the Action Plan was signed, U.S. trade representatives have carefully monitored the Action Plan's implementation in China.[145] So far, China has honored several of its obligations: thirty-one of thirty-four laser and compact disc factories are now registered with the government;[146] eighteen factories were shut down for making counterfeit CDs, laser discs, and software;[147] twenty million pirated CDs,[148] 800,000 pirated records and videotapes, 40,000 bootleg sets of

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[144] Simpson, *supra* note 23, at 620.

[145] *U.S. Team to Monitor Patent Pact in China*, ASIAN WALL ST. J., July 14, 1995, at 10.

[146] *Asian-Pacific Politics and Policy: China Claims Control Over Copyright Abuse*, ASIAN WALL ST. J., Feb. 14, 1996, at 9.

[147] Three factories were shut down in 1995 and fifteen were shut down in June, 1996. *Id.*; Rone Tempest, *China Averts U.S. Sanctions by Going After CD Pirates Trade*, L.A. TIMES, Jun. 18, 1996, at A1. There is some speculation, however, that some of the factories which were shut down were subsequently reopened. *Id.*

[148] Victoria Slind-Flor, *China Patent Boss Predicts a Great Leap Forward; Chief of the Chinese Patent Office, in U.S. Visit, Says His Country's Approach May Be a Boon For the Small Investor*, NAT'L L.J., May 15, 1995, at B1-B2.

actions,[130] increase computer software protection, [131] allow U.S. individuals and entities to establish joint ventures with Chinese companies to produce and distribute audiovisual and computer software products,[132] provide national training and education about intellectual property rights,[133] require all CDs, CD-ROMs, and laser discs manufactured in China to bear a Source Identification ("SID") code, require all disc producers to have Title Identification to identify copyright purchase,[134] and report China's enforcement efforts to the United States on a regular basis.[135]

Under the Action Plan, the United States agreed to train Chinese authorities to identify and confiscate infringing goods, provide technical equipment related to intellectual property enforcement, assist China in creating a central recordation system, provide information and statistics on federal intellectual property prosecutions, and provide information on Chinese products that are being infringed in the United States.[136] These objectives are to be accomplished by the U.S. Customs Service, the U.S. Patent and

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[130] *Id.* at 890 (art. I(B)(1)(a)).

[131] *Id.* at 895 (art. I(D)(2)(b)).

[132] *Id.* at 884.

[133] *Id.* at 905 (art. II).

[134] *Id.* at 903 (art. I(H)).

[135] *Id.* at 885.

[136] *Id.*

"Special 301" provision, China could face U.S. trade sanctions equal to the amount of losses sustained by U.S. companies from piracy in China, which was approximately $1 billion.[117]

After negotiations broke down several times, the United States gave China an ultimatum on February 4, 1995--if China failed to agree to U.S. terms by midnight February 26, the United States would levy one-hundred percent punitive tariffs on $1.08 billion of Chinese imports.[118] China was fully aware of how much the United States contributed to China's economic improvement in the last ten years. Chinese exports to the United States rose from $3 billion in 1984 to $8.8 billion in 1994.[119] Nevertheless, China threatened to retaliate, and the two countries came very close to an all-out trade war.[120] On February 26, China agreed to U.S. terms and signed the Action Plan for Effective Protection and Enforcement of Intellectual Property Rights ("Action Plan")[121] in the eleventh hour to avoid U.S. trade sanctions, a situation much like the signing of the MOU in 1992.[122]

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[117] Donna K.H. Walters, *Chinese Court Upholds Walt Disney Co. Copyright*, L.A. TIMES, Aug. 5, 1994, at D1.

[118] David E. Sanger, *President Imposes Trade Sanctions on Chinese Goods*, N.Y. TIMES, Feb. 5, 1995, at A1.

[119] Simpson, *supra* note 23, at 622.

[120] *Id.* at 619-20.

[121] Letter from Wu Yi, Minister of Foreign Trade & Economic Cooperation, People's Republic of China, to Mickey Kantor, U.S. Trade Representative, United States of America, Action Plan for Effective Protection and Enforcement of Intellectual Property Rights, Feb. 26, 1995, 34 I.L.M. 881 [hereinafter Action Plan].

[122] *See* Simpson, *supra* note 23, at 620.

infringement liability.[105] Finally, U.S. practitioners should note several fair use exceptions listed in the Software Regulations.[106]

In October, 1992, China joined both the Berne Convention for the Protection of Literary and Artistic Works and the Universal Copyright Convention.[107] Shortly thereafter, China issued its Regulations on the Implementation of International Copyright Treaties ("International Copyright Treaties Regulations").[108] The International Copyright Treaties Regulations amended China's Copyright Law to protect unpublished foreign works that fall within the Berne Convention,[109] protect foreign computer programs as literary works without registration for a single term of fifty years, instead of twenty-five years plus a renewal term of twenty-five years,[110] give foreign copyright owners the exclusive right to import their copyrighted works,[111] and eliminate certain limitations on copyright owners' rights that are inconsistent with the Berne

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[105] *Id.*, ch. IV, art. 32, at 14,707.

[106] *See id.*, arts. 21-22, 31, at 14,701, 14,707.

[107] Simpson, *supra* note 23, at 590.

[108] Regulations on Implementation of International Copyright Treaties (1992), *translated in* 2 China Laws for Foreign Business, Business Regulation (CCH) ¶ 11-703, at 14,661-667 (1993) [hereinafter International Copyright Treaties Regulations].

[109] *Id.*, art. 5, at 14,661; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, *completed* Paris, May 4, 1896, *revised* Berlin, Nov. 13, 1908, 1 L.N.T.S. 217, *completed* Berne, Mar. 20, 1914, *revised* Rome, June 2, 1928, 123 L.N.T.S. 233, *revised* Brussels, June 26, 1948, 331 U.N.T.S. 217, *revised* Stockholm, July 14, 1967, 828 U.N.T.S. 221, *revised* Paris, July 24, 1971, S. TREATY DOC. NO. 27, 99th Cong., 2d Sess. (1986).

[110] International Copyright Treaties Regulations, *supra* note 108, art. 7, at 14,663.

[111] *Id.*, art. 15, at 14,665.

authorship, alteration, and integrity.[95] The rights of publication and of exploitation and remuneration are protected during the life of the author plus fifty years; the term for protection of an author's moral rights is infinite.[96]

The Copyright Law also provides twelve instances where the fair use defense may be raised.[97] Unlike U.S. copyright laws, this list of twelve instances appears to be an exclusive list. Section 107 of the U.S. Copyright Act provides four factors to be considered in

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[95] *Id.*, ch. II, sec. 1, arts. 9-10, at 14,563-565.

[96] *Id.* ch. II, sec. 3, arts. 20-21, at 14,571-573.

[97] These instances include: (1) using another person's published work for personal study, research or appreciation; (2) using in one's own work appropriate quotations from another person's published work to introduce or comment on a certain work or to explain a certain issue; (3) quoting published works in newspapers, periodicals, broadcasts, television programs or news documentaries when reporting current affairs news; (4) newspapers, periodicals, radio and television stations publishing or broadcasting editorials and commentaries already published or carried by other newspapers, periodicals, radio and television stations; (5) newspapers, periodicals, radio and television stations publishing or broadcasting speeches made at public meetings, except if the author of the speech refuses to permit its publication; (6) translating or reproducing in small quantities published works to supply to students or scientific research personnel for the purpose of classroom teaching or scientific research, but the publishing and issue of such works shall be prohibited; (7) government authorities making use of published works to execute their official business; (8) libraries, archives, memorial halls, museums, art galleries, etc, making reproductions of works which they have stored in order to display or preserve the works; (9) free performances of published works; (10) copying, painting, photographing or videoing art works installed or displayed outside in public places; (11) translating works published in the Han nationality script into the script of minority nationalities for domestic publication and issue; and (12) altering into braille and publishing already published works. *Id.* ch. II, sec. 4, art. 22, at 14,573-575.

month grace period for invention applications to satisfy the novelty requirement.[81]

In all, nineteen of sixty-nine Chinese Patent Law articles were amended in September, 1992.[82] These changes included: giving domestic patent owners (including Chinese patentees, joint ventures, or foreign patentees with assigned patent rights) the right to exclude others from importing their patented product into China;[83] providing patent protection for foods, pharmaceuticals, and chemicals;[84] extending the right of priority to cover design patents as well as inventions and utility models;[85] making it significantly easier to amend patent applications;[86] extending protection of inventions from fifteen to twenty years, and from five to ten years for utility models and design patents;[87] and limiting the power of Chinese officials to grant compulsory licenses of foreign patents.[88] The compulsory license change was particularly significant because all patents granted in China before 1992 were subject to unconditional use.

Besides extending the scope of protection, the amendments also made the patent system more efficient. For example, there is now

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[81] Harrington, *supra* note 25, at 360.

[82] *Id.* at 359.

[83] Patent Law, *supra* note 39, ch. I, art. 11, at 14,203.

[84] *Id.* ch. II, art. 25, at 14,211.

[85] *Id.* ch. III, art. 29, at 14,213.

[86] *Id.* ch. III, art. 33, at 14,215; Patent Law Implementing Regulations, *supra* note 80, ch. III, arts. 51-52, at 14,225.

[87] Patent Law, *supra* note 39, ch. V, art. 45, at 14,221.

[88] *Id.* ch. VI, art. 52, at 14,225.

These issues came to a head in 1991 when the United States threatened China with trade sanctions if China did not enforce U.S. intellectual property rights.[73]

III. DEMONSTRATION OF CHINA'S NEW COMMITMENT IN THE 1990S TO PROTECT INTELLECTUAL PROPERTY

Like other developing nations, China's natural instincts were to avoid becoming too dependent on foreign nations and to promote local development. That is the reason why enforcement of intellectual property rights was often forced upon China by the United States. But China has initiated several measures on its own without foreign coercion, demonstrating China's genuine commitment to protect intellectual property.

A. *Legislative Changes*

In the early 1990s, Deng Xiaoping and the National People's Congress committed itself to transforming China's planned economy into a market economy. Foreign corporations, a growing presence in China, demanded better intellectual property protection. In order to increase technology transfer, China recognized the immediate need to improve protection of foreign intellectual property rights, since property rights are worthless without enforcement.

In January, 1992, China and the United States signed the Memorandum of Understanding ("MOU"), in which China agreed to improve enforcement of its Patent Law and Copyright Law.[74] China

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[73] *See High-Tech Hijackers--Software Firms Deserve Protection from Pirates, supra* note 60.

[74] Memorandum of Understanding on the Protection of Intellectual Property, Jan. 17, 1992, U.S.-P.R.C., 34 I.L.M. 676 (1995).

Microsoft Corporation sought $22 million in damages from an infringing Chinese university workshop, but it only received $2,500.[63] Sega Enterprises asked for punitive damages and a permanent injunction, but it only received $3,000.[64] While U.S. companies--and even some Chinese companies--complained that the damages were inadequate, the Chinese courts treated the damage awards as reasonable royalty fees. U.S. businesses besieged the White House and Congress to pressure China into enforcing their intellectual property rights.[65]

Some accusations were true: some high-level government officials either sponsored or received kickbacks from factories that pirated foreign CDs, tapes, and video games.[66] In addition to corruption, however, there were three other reasons for non-enforcement. First, the Chinese Patent Office and courts were ill-equipped to handle the large number of foreign applications and infringement suits. Chinese judges and attorneys lacked the technical knowledge and legal skills to handle complex cases. Since China does not apply *stare decisis*, there were no clear judicial tests to determine infringement, and similarly-situated litigants received disparate treatment from different courts.[67] For instance, some courts applied

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[63] M. Margaret McKeown and H. Ping Kiang, *IP Protection In China: Reality or Virtual Unreality?*, LEGAL TIMES, May 15, 1995, at 24, 26 [hereinafter McKeown & Kiang I].

[64] *Id.* at 26.

[65] *See* Mufson, *supra* note 1; *U.S. Copyright Industries Call for Sanctions on China*, *supra* note 61; Woody Hochswender, *Patterns: Silk Diplomacy*, THE N.Y. TIMES, Dec. 24, 1991, at B7.

[66] Wineburg, *supra* note 18.

[67] Jianyang Yu, *Protection of Intellectual Property in the P.R.C.: Progress, Problems, and Proposals*, 13 UCLA PAC. BASIN L.J. 140, 158 (1994).

(4) the establishment of a first-to-file system for patent applications.[50] Unlike the United States, however, China's Patent Law provides a defense for alleged infringers who did not knowingly infringe the patent.[51] In the United States, intent of the alleged infringer is not a defense to liability; intent is only relevant in calculating damages for willful infringement.[52]

China began to form a national system for copyrights in 1910, but this system was repudiated by the Communists in 1949. In 1979, China and the United States first agreed to protect each other's literary and artistic works by signing the China-U.S. Trade Relations Agreement.[53] Although China joined the World Intellectual Property Organization ("WIPO") in 1980,[54] it did not formally recognize the concept of copyrights until 1985, when it finally joined the Paris Convention.[55] It was not until 1991 that China adopted its first national copyright law.[56]

China adopted its first Trademark Law in 1982 to protect trademarks, service marks, defensive marks, collective marks, and

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[50] *Id.* ch. III, art. 29, at 14,213.

[51] *Id.* ch. VII, art. 62(2), at 14,229.

[52] *See* 35 U.S.C. §§ 282, 284-85 (1994); Ryco, Inc. v. Ag-Bag Corp., 857 F.2d 1418, 1429, 8 U.S.P.Q.2d (BNA) 1323, 1332 (Fed. Cir. 1988).

[53] PENDLETON, *supra* note 47, at 39.

[54] Ma Zhiping, *Trademark Seekers Set a Record Last Year*, CHINA DAILY, Feb. 6, 1993, at 11 [hereinafter Ma].

[55] NIMMER & GELLER, *supra* note 36, § 1[3]; Ma, *supra* note 54; Paris Convention for the Protection of Industrial Property, July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305.

[56] Copyright Law, *supra* note 40.

of two hundred years, adopted its first true patent laws in 1984[39] and its first true copyright laws in 1991.[40] Naturally, "it will take more time for all Chinese to deeply understand the concept of intellectual property."[41]

B. *Beginning Of A Transformation*

In 1950, China adopted its first national system to protect the rights to transfer, invest, license, and receive certain rewards for inventions.[42] The new system, still relatively unsophisticated, did not guarantee a right to exclude others. There was little registration and even less enforcement. After amendments in 1963 and 1978, China began to realize that a strong patent system was necessary to attract foreign investors looking for a way to enter China while at the same time preserving their intellectual property. In 1979, the Communist regime adopted an "open door" policy in order to boost foreign investment and trade.[43]

About this time, China also began to appreciate the value of improving protection for its own citizens.[44] Under China's old patent

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[39] Patent Law of the People's Republic of China (1984), as amended by the Standing Committee of the National People's Congress (1992), *translated in* 2 China Laws for Foreign Business, Business Regulation (CCH) ¶ 11-600, at 14,201-232 (1993) [hereinafter Patent Law].

[40] Copyright Law of the People's Republic of China (1992), *translated in* 2 China Laws for Foreign Business, Business Regulation (CCH) ¶ 11-700, at 14,561-595(1993) [hereinafter Copyright Law].

[41] *Chinese Envoy*, *supra* note 22.

[42] ZHENG & PENDLETON, *supra* note 23, at 52.

[43] *Id.* at 53.

[44] Harrington, *supra* note 25, at 347.

Together, Taoism and Confucianism were embodied in the Chinese culture, way of thinking, and way of life.

Traditionally, copying has been a legitimate means of learning in China.[30] Apprentices who studied sculpture, calligraphy, and painting were taught to copy their master's work as closely as they could.[31] The more people admired a master's work and adopted his style, the more that master's reputation and success grew. Copying was not considered theft in China; it was an honored tradition.[32] This tradition continues today as artists reproduce famous single-edition art works, and consumers purchase these works with full knowledge that the works are replicas.

The notion of personal intellectual property rights did not emerge in China the way it did in Europe, even though the Chinese discovered such things as paper, printing, gunpowder, and the compass. Confucianism and Taoism provided strong barriers to the idea of "intellectual property" at the time that capitalism swept through Europe.[33] China also had a strong tradition of isolationism and distrust of foreign ideas as a result of the Opium War in 1840.[34]

At the turn of the century, however, China appeared on the verge of recognizing intellectual property on a national level. In 1898,

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[30] Wineburg, *supra* note 18.

[31] Frankie Fook-Lun Leung, *Tradition of Copying in China Fuels the Piracy of Intellectual Property*, L.A. TIMES, Mar. 5, 1995, at 2.

[32] Sue Holloway, *"Black Box" Agreements: The Marketing of U.S. Technical Know-How in the Pacific Rim*, 23 CAL. W. INT'L L.J. 199, 224 (1992).

[33] ALFORD, *supra* note 10, at 29.

[34] Liwei Wang, *The Chinese Traditions Inimical to the Patent Law*, 14 NW.J. INT'L L. & BUS. 15, 18-20 (1993).

rights, and (3) propose enforcement strategies to U.S. practitioners. Section II of this article provides a short overview of China's perception of intellectual property before 1990. Section III summarizes the executive, legislative, judicial, administrative, and grass root changes to intellectual property in China in the 1990s. Section IV briefly addresses the criticism of China's intellectual property enforcement. Finally, Section V lists suggestions for practitioners on how to improve enforcement of their intellectual property rights in China.

II. BRIEF OVERVIEW OF CHINA'S PERCEPTION OF INTELLECTUAL PROPERTY BEFORE 1990

A. *Technology And The Arts Were Meant To Be Shared*

While U.S. companies perceive copying as infringement, most people in China see it as technology transfer. U.S. critics call China a land of unethical pirates, while some Chinese see the United States as a land of money-grubbing monopolists. In response, the Chinese argue that, if the United States wants to enforce intellectual property rights, it should start with enforcing China's right over the compass, paper, gunpowder, and printing technologies.[22] Without a history of protecting intellectual property like the United States, China has not shared the sense of loss felt by U.S. companies.

To understand China's perception of intellectual property, one must look past the current Communist regime. For two thousand years, the rulers in China encouraged people to share inventions,

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[22] *Chinese Envoy Says Concept of Intellectual Property Hard to Accept*, Agence France-Presse, June 3, 1996, *available in* WESTLAW, Allnews database, 1996 WL 3864601 (quoting Wu Dawei, charge d'affaires at the Chinese embassy in Tokyo, as saying "[w]e [Chinese] let people all over the world use our four great inventions without collecting any money") [hereinafter *Chinese Envoy*].

In addition, many Chinese consumers do not make a conscious decision to buy "pirated" goods.[15] They simply buy what is available to them. For example, one U.S. businessman bought three Ralph Lauren Polo® shirts from a street peddler in Shanghai.[16] Obviously, a U.S. businessman would know that five-dollar Polo® shirts bought in China are most likely not made by a licensed Ralph Lauren manufacturer. But an average Chinese consumer would probably not know the difference because he does not have access to a Macy's department store to compare the pirated shirt with the genuine article.

Even if Chinese consumers are offered a choice between buying genuine U.S. products or counterfeit products, the difference in prices affects their decision. Why would one buy Lotus 1-2-3 for $495 when a pirated copy sells for $23 in China?[17] The products look the same. It makes little difference to Chinese consumers who manufactured the products. Moreover, it makes little difference to consumers in Asia, Europe, and South America who buy pirated products imported from China for a fraction of the genuine price.

China's central government is now working hard to educate its citizens about intellectual property. For years, China endorsed intellectual property piracy because piracy provided jobs, capital, and

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[15] Interview with Professor Sun, *supra* note 12.

[16] Interview with Dr. David S. Chen, President of The Asia Pacific Holdings Corporation, Taiwan, in N.J. (Oct. 1995).

[17] James Cox, *Crackdown on Software Pirates Starts: China is Serious about Curbing Theft of "Intellectual Property,"* DETROIT NEWS, Feb. 23, 1995, at E1 [hereinafter Cox I].

to grow at about nine percent per year from 1995 to 2020.[6] China's real gross domestic product is projected to reach $5.5 trillion in 2020.[7] These figures indicate that China's economy will have a significant effect on international markets, particularly the United States.

Finally, China possesses the world's largest consumer market with 1.2 billion consumers, a quarter of the world's population. As China's standard of living continues to improve, more Chinese consumers will yearn for U.S. consumer products, such as clothes, video games, CDs, motion pictures, software, and brand name foods.[8] In recent years, China has become a magnet for U.S. corporate expansions and joint-ventures, involving companies such as Chrysler, Microsoft, Proctor & Gamble, and McDonald's. Chrysler, for instance, produces approximately 30,000 Jeep Cherokees® a year through a joint venture in Beijing.[9]

B. *A Glimpse At Sources Of The Problem*

The problem with intellectual property enforcement in China begins with education and cultural tradition. For centuries, Chinese scholars, artists, musicians, and scientists freely shared their ideas and

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[6] *Asian Pacific Politics and Policy: China's Economy Is Seen Growing At Steady*, ASIAN WALL ST. J., Nov. 17, 1995, at 16 (quoting Lawrence Lau, Professor of Economics, Stanford University). China's economy experienced 11.8% growth in 1994, 13.4% in 1993, and 13.6% in 1992. Martin Wolf, *Survey of China: Time for Radical Action*, FIN. TIMES, Nov. 20, 1995, at 3.

[7] *Asian Pacific Politics and Policy, supra* note 6.

[8] *See e.g.*, Marcus W. Brauchli, *China Offers Helping Hand to U.S. Software Firms*, ASIAN WALL ST. J., Sept. 16, 1996, at 9 ("[S]ales of legitimate computer software in China totaled about $160 million. By the turn of the century, Beijing projects that will rise to $1.3 billion . . . .").

[9] *An Auto War with China?*, WARD'S AUTO WORLD, Mar. 1, 1995, at 10.

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