

# EVALUATION OF THE SINO-AMERICAN INTELLECTUAL PROPERTY AGREEMENTS: A JUDICIAL APPROACH TO SOLVING THE LOCAL PROTECTIONISM PROBLEM

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Intellectual property protection is a controversial topic in trade negotiations between the United States and China. In principle, China recognizes intellectual property rights ("IPR") and offers extensive protection for owners through its comprehensive patent, trademark, and copyright laws.<sup>1</sup> But spotty enforcement of these laws in practice has seriously undermined the interests of many foreign investors. Due to strong economic pressures exerted by the United States on China to strengthen its actions against infringing activities, the two countries entered into the 1995 Agreement Regarding Intellectual Property Rights ("1995 Agreement"),<sup>2</sup> followed by an agreement embodied in an exchange of letters between the United States and the PRC in 1996 ("1996 Agreement").<sup>3</sup>

The 1995 Agreement outlines four enforcement mechanisms. The most extensive one establishes an administrative network of provincial,

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1. When reviewing the World Intellectual Property Organization's [hereinafter "WIPO"] cooperation with China in the past twenty years, Dr. Arpad Bogsch, director of WIPO, pointed out that "China had accomplished all this at a speed unmatched in the history of intellectual property protection." See *Publishes White Paper on Intellectual Property Protection*, Xinhua News Agency, June 16, 1994, available in LEXIS, World Library, CURNWS File.

2. Agreement Regarding Intellectual Property Rights, Feb. 26, 1995, U.S.-P.R.C., 34 I.L.M. 881 [hereinafter "1995 Agreement"]. The 1995 Agreement contains the Chinese Action Plan for Effective Protection and Enforcement of Intellectual Property Rights [hereinafter "Plan"] and letters between Ms. Wu Yi, Minister of Foreign Trade and Economic Cooperation of the People's Republic of China [hereinafter "PRC"], and Mr. Michael Kantor, former United States Trade Representative [hereinafter "USTR"].

3. After the United States threatened to impose US\$2 billion worth of sanctions against the PRC for failing to implement the 1995 Agreement, Minister of Foreign Trade and Economic Cooperation Wu Yi wrote a letter promising to satisfy U.S. demands [hereinafter "1996 Agreement"]. The 1996 Agreement contains the Report on Chinese Enforcement Actions under the 1995 Agreement and Other Matters and is available from the Office of the United States Trade Representative.

regional, and local administrative agencies and the Intellectual Property Working Conference ("IPWC"), a special body created to assist their work.<sup>4</sup> The main office of the IPWC functions as the central administrative authority primarily responsible for policy-making, while its regional offices formulate plans for actions against infringing operations that take place in more than one jurisdiction. The enforcement authority of each jurisdiction must handle factory raids, arrests, and subsequent prosecutions as requested.<sup>5</sup> Each enforcement authority is comprised of regional branches of administrative agencies overseeing intellectual property protection, such as the Copyright Administration, the Administration for Industry and Commerce ("AIC"), the Patent Office, and the Public Security Bureau.

The second type of enforcement mechanism requires rigorous policing of infringing acts. Administrative agencies concerned must conduct routine copyright verification and inventory checks to suppress the distribution and use of illegal audio-visual and computer products.<sup>6</sup> The Custom department must follow a thorough search procedure analogous to the United States' to screen out counterfeit imports.<sup>7</sup> The central government must establish a long-term nationwide educational program promoting the concept of intellectual property protection and supplying information to state officials, attorneys, managers, and students as necessary.<sup>8</sup>

The third type of enforcement mechanism focuses on deterrence. The 1995 Agreement limits the discretion traditionally reserved for state and local officials. As opposed to the levy of nominal fines, officials must impose much stiffer penalties on infringers and must seize and destroy all counterfeit audio-visual products and related machineries.<sup>9</sup> In copyright infringement cases, the audio-visual division of the Press Administration must revoke the audio-visual product permit of repeat offenders.<sup>10</sup> In other cases, the AIC must deny the renewal of an infringer's business license in the field where the infringement is found and must revoke the business license of an infringer who disregards the intellectual property laws "in a serious manner for more than one occasion."<sup>11</sup>

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4. Plan, *supra* note 2, arts. I-A(4), I-A(6).
  5. Plan, *supra* note 2, arts. I-A(5)(a), I-B(1)(a) & I-F(4).
  6. Plan, *supra* note 2, art. I(H).
  7. Plan, *supra* note 2, art. I(G).
  8. Plan, *supra* note 2, art. II(A).
  9. Plan, *supra* note 2, art. I(D)(1).
  10. Plan, *supra* note 2, arts. I-D(2)(a) & I-F(1).
  11. Plan, *supra* note 2, arts. I-E(3) & I-F(1).

In contrast to the other three, the fourth type of enforcement mechanism applies only temporarily. The Chinese government must set aside a special enforcement period<sup>12</sup> for a nationwide campaign against infringement, focusing on notorious enterprises and publicizing serious cases. Infringers arrested during this period must be severely punished.<sup>13</sup>

Apart from consenting to the introduction of these enforcement mechanisms, China has also granted the United States certain trade privileges. Companies of the audio-visual and software industries now enjoy a streamlined state approval process for foreign investment as well as guaranteed access to the Chinese market and the power to enter into joint venture arrangements for the production, reproduction, and distribution of their products.<sup>14</sup> Apart from getting importation quota exemptions for their audio-visual products, members of the entertainment industry may also market their entire collections in China, as long as the content therein passes the scrutiny of the central government.<sup>15</sup>

Pursuant to the 1995 Agreement, a large-scale antipiracy campaign took place between March 1, 1995 and August 31, 1995. The programs launched within the special enforcement period curtailed the scope of the infringing activities, shutting down six of the seven major factories producing counterfeit compact discs. The success has nonetheless proved to be a temporary one: the compact disc factories were reopened shortly after the campaign ended, and production of illegal compact discs was doubled.<sup>16</sup> The failure of the campaign in addition to the disappointing results of other enforcement efforts inevitably led to another series of Sino-American negotiations. To remedy the deficiencies of the 1995 approach, the two countries entered into the 1996 Agreement. As for enforcement mechanisms, China has promised to impose stiffer penalties, extend the special enforcement period, and tighten its supervisory measures.

The linking of trade sanctions to IPR violations has achieved little success in China. Focusing on dialogues between high-ranking officials, this trade-based approach has missed the core of the problem: enforcement of intellectual property laws depends on the cooperation of local officials,

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12. Plan, *supra* note 2, art. I-C(1).

13. Plan, *supra* note 2, art. I-C.

14. 1995 Agreement, *supra* note 2, at 884.

15. *Id.*

16. Maggie Farley & James Gerstenzang, *China Piracy of US Products Surges Despite Accord*, L.A. TIMES, Oct.10, 1995, at A1 [hereinafter "*Piracy*"]; see also David E. Sanger, *US Reopens Issue of Piracy With China*, N.Y. TIMES, Dec.1, 1995, at A1 (China conducted 3,200 raids on retailers that sell pirated products but failed to attack manufacturers).

and their line of thinking merits greater consideration. Despite the stern attitude of the central government, the loopholes in the Agreements effectively camouflage local officials' resistance.

Most commentators in the United States focus on substantive aspects of China's intellectual property laws and insist on a standard of protection analogous to that of the industrialized countries.<sup>17</sup> Their position, however, neglects the political, economic and social infrastructures underlying law enforcement in China. This article analyzes the problems inherent in compliance, evaluates the constraints of the existing enforcement mechanisms, and offers pragmatic strategies to preserve foreign IPR interests.

Part I of the article discusses local protectionism and its underlying political, economic and social problems. Part II contends that the ambiguities and loopholes in the enforcement mechanisms created by the 1995 and 1996 Agreements have impaired the Agreements' effectiveness. Part III analyzes the use of a judicial approach in overcoming enforcement problems. The first section of Part III considers forum shopping, a critical strategy to penetrate local protectionism. The second section suggests an alternative—criminal actions against infringers, a novel but cogent strategy to gain settlements.

This article proposes that demands for an immediate improvement of China's IPR infringement record are unrealistic because the rule of law that is an essential precondition to effective enforcement is currently hindered by severe local protectionism throughout China. Trade sanctions do not adequately address the fundamental problems, and a truly effective strategy must encompass measures that further political and economic reform.

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17. See, e.g., 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, 393 (1993-1994); Laurence P. Harrington, *Recent Amendments to China's Patent Law: The Emperor's New Clothes*, 17 B.C. INT'L & COMP. L. REV., 337, 374 (1994); LAURENCE J. BRAHM, *INTELLECTUAL PROPERTY LAW IN THE PEOPLE'S REPUBLIC OF CHINA: A SPECIALLY COMMISSIONED REPORT* (1988) [hereinafter "SPECIAL REPORT"].

## I. ENFORCEMENT PROBLEMS AND LOCAL PROTECTIONISM

The problem of securing protection for intellectual property rights in China derives from its badly-crippled legal system, which is in turn strongly shaped by the political, economic and cultural environment. For example, decentralization has enabled local governments to assume greater control over their own regions. As a result, local governments are often indifferent to infringement complaints if official intervention would damage the economic interests of their region, especially when the region is less-developed. Furthermore, such disputes are traditionally considered trivial and private rights are rarely honored above those of the public.<sup>18</sup> Overcoming the enforcement barriers that are grounded on bureaucracy and cultural norms necessitates a fundamental change of China's political and legal systems.

### A. *A Lack of Incentives*

China's recognition of intellectual property rights began in the 1980's, but the aim was primarily to further Deng Xiaoping's reform policy by encouraging technology transfer from foreign countries.<sup>19</sup> Likewise, the legislative changes made during the 1990's were trade concessions founded on the fear of a tariff battle with the United States<sup>20</sup> and the desire to join the World Trade Organization ("WTO").<sup>21</sup> A high standard of intellectual property protection benefits future economic development, but its cost is

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18. See generally YE XIAOXIN ET AL., *ZHONGGUO MINFA SHI* [TRADITION OF CHINESE CIVIL LAW] (1993) [hereinafter "CIVIL PROCEDURE"] (The chapters on civil procedure, written by the author of this article, discuss the mechanisms and underlying policies of traditional civil dispute solutions in China).

19. See SPECIAL REPORT, *supra* note 17.

20. See, e.g., RAY A. MANTLE ET. AL., *COPYRIGHT LAW, DOING BUSINESS IN CHINA* 4-4, 4-5 (1994) (noting that although the Chinese government began to draft the Copyright Law in the early 1980's, it took effect only in 1991 under the pressure of the US government).

21. The Chinese government believes that by showing that its IPR laws adhere closely to the international standard, the US government will support China's bid to become a founding member of the WTO. Immediately after signing the 1995 Agreement, China's trade minister accused the US of violating the "most important commitment" in the 1992 Sino-American accord on intellectual property, which called on the US to support China to be a WTO founding member. Patrick E. Tyler, *New Dispute Imperils Trade With China*, N.Y. TIMES, Mar. 12, 1995, at 21. For the reasons behind China's eagerness to become a member of the WTO, see HAROLD K. JACOBSON AND MICHAEL OKSENBERG, *CHINA'S PARTICIPATION IN THE IMF, THE WORLD BANK, AND GATT* (1990).

also imminent.<sup>22</sup> Given that the nation's human resources are devoted to a variety of economic and political reforms, the revamping of an additional system with no short-term benefits is overtly unpopular.<sup>23</sup>

Privatization of state enterprises is a drastic economic reform in China. Technically speaking, many state-owned enterprises are already bankrupt; their ongoing operations are only funded by the central government to prevent massive unemployment. If China becomes a WTO member, the existing subsidies must terminate, which means all state-owned enterprises must compete directly against private domestic and foreign enterprises. It is predicted that more than one-third of the state-owned enterprises will officially become bankrupt in this competitive market,<sup>24</sup> and 20 million people will lose their jobs. As the top priority of the central government is to maintain political control by the Communist Party, all national policies must sustain social stability. Rigorous intellectual property protection, however, will drive many domestic enterprises out of the market.<sup>25</sup> In the meantime, domestic owners of intellectual property rights will profit little from the scheme because their limited financial and technical capabilities prevent them from investing in expensive research or marketing projects.<sup>26</sup>

22. These social costs include increased royalty payments to foreign innovators, the loss of investment opportunities for domestic industries, rising unemployment, higher prices for consumer products, greater dependence on imports, suppressed development of domestic industries and enlargement of the technological gap. For debate on the social costs and benefits of IPR regimes, see David Silverstein, *Intellectual Property Rights, Trading Patterns and Practices, Wealth Distribution, Development and Standards of Living: A North-South Perspective on Patent Law Harmonization*, in *INTERNATIONAL TRADE AND INTELLECTUAL PROPERTY* 155 (1994) [hereinafter "*Patent Law Harmonization*"]; J.H. Reichman, *The TRIPS Component of the GATT's Uruguay Round: Competitive Prospects for Intellectual Property Owners in an Integrated World Market*, 174 *FORDHAM INTELL. PROP. MEDIA & ENT. L. J.* 171 (1991); Richard T. Rapp and Richard P. Rozek, *Benefits and Costs of Intellectual Property Protection in Developing Countries*, 1991 *J. WORLD TRADE* 75; EDWIN MANSFIELD, *Intellectual Property, Technology and Economic Growth*, in *INTELLECTUAL PROPERTY RIGHTS IN SCIENCE, TECHNOLOGY, AND ECONOMIC PERFORMANCE* 17, 30 (1990).

23. See, e.g., Andrew Quinn, *China Society at "Turning Point" on Reform*, *Reuter Asia-Pacific Busi. Rep.*, Nov.5, 1993, available in LEXIS, World Library, CURNWS File. [hereinafter "*Turning Point*"]

24. See, e.g., Rowena Tsang, *Signs of US Softening Stand on GATT Re-entry*, *SOUTH CHINA MORNING POST*, Nov.4, 1994; Mark O'Neill, *China Set to be Top Investment Destination*, *REUTERS WORLD SERVICE*, Oct.26, 1994; *China's Re-entry into GATT May Lead to 20m Job Losses*, *BUSI. TIMES*, Feb.2, 1993, available in LEXIS, World Library, CURNWS File.

25. Plan, *supra* note 2, arts. I-E(3), I-F(1). For example, AIC is required to revoke the business license of those who have been found guilty of IPR infringement in a "serious manner" on more than one occasion.

26. See, e.g., Lu Yimao, *Jiji Youxiao Di Jiasu Jinji Yu Keji De Jiehe* [*Speedy and Effective Integration of China's Economy with Science and Technology*], 11 *GUOJI MAOYI* [*INTERNATIONAL TRADE*] 8 (noting that China's general level of technology remains similar to that of the 1950's and

To the central government, a strengthening of intellectual property protection is thus tantamount to a transfer of wealth from domestic enterprises to foreign ones in the short-term.

The general public, generally unacquainted with the notion of intellectual property rights, is also unresponsive to the call for rigorous enforcement. In ancient China, an innovator did not enjoy any private rights to his invention. Public use of "intellectual property" bestowed honor and fame on the innovator and was not morally condemned.<sup>27</sup> In an administrative proceeding, local officials resolved the civil dispute with reference to Confucian values and equity; relevant statutes played little role, if any, in the decision-making process. Similarly, in a judicial proceeding, public interests frequently trumped private interests because judges had considerable discretion in enforcing civil law.<sup>28</sup> In a late Qing dynasty case,<sup>29</sup> the defendant, a member of the plaintiff's clan, encroached upon the plaintiff's cemetery and tore down his wall. The magistrate found the defendant's conduct malicious and utterly detestable. Nevertheless, in view of the fact that the defendant was poor, the magistrate ordered the plaintiff to donate 16 yuan to the defendant with the purpose of preserving harmony within the clan. Here, the disparate economic positions of the parties carried more weight than the private property rights involved.

In contemporary China, cultural norms remain influential in legal proceedings. In a recent trademark infringement case, Huaxing Razor Blade Factory ("Huaxing") produced razors that imitated the packaging of razors manufactured by Gillette's joint venture in Shanghai. In 1994, the Shanghai AIC imposed fines on Huaxing totaling \$6,800 for trademark infringement. While acknowledging that Gillette lost 1 million yuan in sales revenue and Huaxing enjoyed profits of 120,000 yuan that year, an AIC official defended the agency's decision on the rationale that 1 million yuan was a small sum of money to a foreign company but was an amount that would force a

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1960's in Western countries; that the knowledge and skills of scientific and technical personnel are generally obsolete; and that the Chinese government has decreased its research and development funding to enterprises in recent years).

27. Under the influence of both traditional Chinese culture and Marxism, Chinese believe that knowledge belongs to the public, and it should not become a commodity. For more details on the traditional Chinese perspective of "intellectual property," see William P. Alford, *Don't Stop Thinking About ... Yesterday: Why There Was No Indigenous Counterpart to Intellectual Property Law in Imperial China*, 7 J. CHINESE L. 3 (1993).

28. See CIVIL PROCEDURE, *supra* note 18.

29. *Id.* at 596.

domestic enterprise into bankruptcy and put people out of work.<sup>30</sup> This was the same rationale used in the Qing dynasty case a century ago. Although Huaxing's willful act led directly to Gillette's monetary damages, the interests of Huaxing's workers appeared to play a more dominant role in the decision than Gillette's ownership rights in the trademark.

### B. *The Nature of Local Protectionism*

Because a local government retains a high degree of control over its administrative and judicial bodies, the private interests of an outsider are easily undermined by the public interests of the region. The central government has recognized the gravity of local protectionism since the mid-1980's but has been incapable of resolving the problem, which has spread from the southeast coastal provinces to the rest of the country.<sup>31</sup>

The National People's Congress ("NPC"), China's primary legislative body, identified two situations giving rise to local protectionism. The first involves obstructions to law enforcement. Authorities often issue temporary decrees before trial, such as empowering officials to investigate, freeze, or garnish a party's bank account. If the order is issued by a judicial or administrative authority outside the jurisdiction where the bank is located, consent of the local administrative authority is required. In some cases, local officials refuse to coordinate and even block law enforcement efforts. In other cases, the local Public Security Bureau or Procurator Office directly intervene in economic disputes.

The second situation encompasses interventions in judicial or administrative proceedings. Local officials often seek to shape the outcome of a case, such intervention made possible by the fact that those officials control the expenditures of the courts as well as the housing and employment opportunities of the judges' children.<sup>32</sup> In such cases, judges

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30. Seth Faison, *Razors, Soap, Cornflakes: Pirating in China Balloons*, N.Y. TIMES, Feb.17, 1995, at A1, C2.

31. See, e.g., Ren Jianxin, *Zhuigao Renmin Fayuan Gongzhuo Baogao* [Supreme People's Court Working Report], ZHONGHUA RENMIN GONGHEGUO ZHUIGAO RENMIN FAYUAN GONGBAO [SUPREME PEOPLE'S COURT GAZETTE], No. 2, 1993, at 55 [hereinafter "1993 Working Report"]. Mr. Ren is the president of the Supreme People's Court. The same complaint has been made in almost every annual Supreme People's Court Working Report since 1986.

32. Internal Judicial Committee of the National People's Congress, *Guanyu Jiancha Zhonghua Renmin Gongheguo Minshi Susongfa Zhixin Qingkuang De Baogao* [Report on Implementing Chinese Civil Procedure Law], 1993.2 ZHONGHUA RENMIN GONGHEGUO QUANGUO RENMIN DAIBIAO DAHUI CHANGWU WEIYUANHUI GONGBAO [NATIONAL PEOPLE'S CONGRESS



have been known to unreasonably deny motions for transfer of forum, render judgments highly favorable to local parties, and refuse to respect former judgments by other courts.

Local protectionism is a corollary of decentralization. Today, central government officials still maintain certain control over personnel management, but they no longer dictate the decisions of local officials.<sup>33</sup> In the new political structure, each jurisdiction has its own Local People's Congress ("LPC"), a congregation of deputies. The 1982 Constitution conferred to the LPC the power to elect and dismiss officials at its own level.<sup>34</sup> With deputies becoming more active in the election process, the LPC's image as a "rubber stamp" body has faded in recent years. Presently, a candidate nominated by a high-level official may not always end up being elected by the LPC.<sup>35</sup> While such a development arguably has beneficial consequences in terms of democratic self-rule, the downside has been local protectionism.

The electoral process has also altered the functioning of local governments. Previously, most local leaders were non-natives appointed by central authorities.<sup>36</sup> Today, candidates are usually selected from the local pool, including native political elites and senior officials working in local government<sup>37</sup> who often have a competitive advantage through well-established personal connections (*guanxi*).<sup>38</sup>

STANDING COMMITTEE GAZETTE][hereinafter "CONGRESS GAZETTE"] 95.

33. See, e.g., John P. Burns, *Strengthening Central CCP Control of Leadership Selection: The 1990 Nomenklatura*, 138 CHINA Q. 458, 491 (1994) [hereinafter "*Leadership Selection*"]; Cheng Li & David Bachman, *Localism, Elitism, and Immobilism: Elite Formation and Social Change in Post-Mao China*, 42(1) WORLD POLITICS 64, 86-87 (1989) [hereinafter "*Localism*"]; Willy Wo-lap Lam, *Paper Views New Crop of Provincial Leaders*, SOUTH CHINA MORNING POST, Mar. 22, 1995, at 14-15 [hereinafter "*Provincial Leaders*"].

34. XIANFA [CONSTITUTION], art. 101 (P.R.C.).

35. See *Leadership Selection*, *supra* note 33, at 473 (Beijing-designated governor candidates did not win the elections in Zhejiang and Guizhou in 1993).

36. Ying-mao Kau, *The Urban Bureaucratic Elite in Communist China: A Case Study of Wuhan, 1949-1965*, COMMUNIST CHINESE POLITICS IN ACTION 216, 267 (1969).

37. See *Provincial Leaders*, *supra* note 33, at 16 (about half of the new provincial leaders promoted in 1995 have worked in the same province for many years); *Localism*, *supra* note 33, 71 & 86-88 (in 1986, over 70 percent of Chinese mayors were natives or were born in a neighboring province, and many of the remainder have been working in the same city for some time); Xiaowei Zang, *Provincial Elite in Post-Mao China*, 31(6) ASIAN SURVEY 512, 516 (1991) (in 1989, 73 percent of the provincial Chinese Communist Party [hereinafter "CCP"] secretaries or governors have devoted their entire careers to the provinces where they hold their current posts; among them, 43.8 percent were native-born).

38. For further discussion of the important role of *guanxi* in Chinese politics, see *A Symposium on Chinese Informal Politics*, 34 CHINA J. (1995). Also see *Leadership Selection*, *supra* note 33, at 472 ("The need of China's leaders at all levels to build and maintain personal relations

Accordingly, a local leader must now answer directly to her constituents. To enhance her career, she must act in concert with her subordinates and promote the economic development of the region. Under the new fiscal system established in the early 1980's,<sup>39</sup> a local government only needs to surrender a portion of its revenue to the central government.<sup>40</sup> With the power to use the remaining portion for its own budget, local government has grown into an independent fiscal entity bearing responsibility for managing local expenditures.<sup>41</sup> This explains why the local government is anxious to intervene in a court judgment that would put local enterprises into serious financial trouble, given that it is directly accountable for the judgment's negative political, economic and social ramifications.<sup>42</sup>

Financial gains have emerged as a crucial factor in decision-making after decades of economic and political turmoil. In the 1950's, Confucian values were replaced by the precepts of Communism, which were in turn eroded during the Cultural Revolution of the 1960's.<sup>43</sup> In today's socialist market economy, many officials are putting less emphasis on state policy, preferring instead their political judgment as to whether the policy would confer a direct benefit on the local community or themselves. With strong political power over their own districts, local officials are prone to favor their private interests and vulnerable to bribery from business enterprises.<sup>44</sup>

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networks, moderated by the need to maintain factional balance, has helped to ensure that, where nomenklatura authority is shared, personnel appointments are negotiated rather than decided unilaterally").

39. See Jean C. Oi, *Fiscal Reform and the Economic Foundations of Local State Corporationism in China*, 45 *WORLD POLITICS* 99 (1992); Christine P. Wong, *Fiscal Reform and Local Industries*, 18 *MODERN CHINA* 197 (1992).

40. See Donald C. Clarke, *What's Law Got To Do With It? Legal Institutions and Economic Reform In China*, 10 *U.C.L.A. PAC. BASIN L. J.* 1, 13-15 (1991).

41. *Id.*

42. See Wang Xinxin, *Shilun Puochanfa De Tiaozheng Jizhi Yu Shishi Wenti* [Problems in Implementing Bankruptcy Law], *Zhongguo Faxue* [CHINESE LEGAL STUDIES], No. 4, 1991, at 85; see also *supra* text accompanying note 30. The fear of social unrest can also be shown by the fact that the Enterprise Bankruptcy Law is still a law only on paper since its 1988 effective date.

43. See, e.g., Helena Kolenda, *One Party, Two Systems: Corruption in the People's Republic of China and Attempts to Control It*, 4 *J. CHINESE L.* 187 (1990) [hereinafter "Corruption"]. Many people fell into a faith crisis after the Culture Revolution. See also *Turning point, supra* note 23.

44. Cary Huang, *A Messy Business on the Mainland*, H.K. *STANDARD*, Feb. 14, 1995, at 15, available in FBIS Daily Report-China, Feb. 15, 1995 (reporting counterfeiters bribed local government officials to obtain protective umbrella). Serious economic crime cases rose 93 percent from 1992 to 1993. The problem is so serious that nearly every month there has been a major pronouncement, administrative regulation, or nationwide conference on economic crime since January 1993. Mitchell A. Silk, *Cracking Down On Economic Crime*, 21(3) *CHINA BUSI. REV.* 21 (1994).

### C. Problems Posed by Local Protectionism

Local protectionism clogs law enforcement. Enforcement officials can hardly be considered neutral actors since the local government directly controls the recruiting, financing and management of the region's enforcement authority. As a result, only 60% of court judgments nationwide were promptly enforced in 1992.<sup>45</sup>

Local governments play an increasingly active role in politics as the old vertical political framework is dismantled.<sup>46</sup> Today it is often hard to implement a national plan without local governments' consent and cooperation.<sup>47</sup> The local governments are playing a cat and mouse game with the central authorities, defending their sovereignty by invoking countermeasures against any objectionable national policy. The current situation is shrewdly reflected in the popular maxim of "*Shang You Zhen Che, Xia You Dui Che*"—whenever the central government institutes a national policy, the local governments overcome the national policy with provincial strategies.<sup>48</sup>

Problems created by local protectionism are not limited to the intellectual property context and are likely to continue in the foreseeable future. While the central government's control over personnel, finances and ideology has weakened considerably since the eras of Mao Zedong and Deng Xiaoping, local governments have been grasping the political and economic reins.<sup>49</sup> To stabilize the political transition in the post-Deng era, the central government will likely restrict disciplinary actions to cases involving political rebellion or national security.

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45. Zhen Dong, *Fayuan Zhixin Nan Toushi* [Probe of Difficulties of Enforcement of Court], FAZHI RIBAO [LEGAL SYSTEM DAILY], May 16, 1993.

46. In January 1994, the court of Puqin City accepted a breach of contract claim filed by a local plaintiff against an outside defendant beyond its jurisdiction. Without due process, the court detained defendant's employee as a hostage for demanding payment. Even though the appellate court reversed the detention decision, and the prefecture CCP leaders requested the city CCP leaders to help release the employee, the court refused to do so. Wang Qinglin, *Yuequan Guanxia, Jiya Renzi, Jujue Jiandu* [Exceeding Jurisdiction, Detaining Hostage and Refusing Supervision], LEGAL SYSTEM DAILY, Feb. 21, 1994, at 1.

47. Gerald Segal, *China's Changing Shape*, 73 FOREIGN AFFAIRS 43, 45 (1994) (noting that Beijing's failure to implement an economic austerity package in the summer of 1993 was almost entirely due to resistance by the coastal provinces).

48. Harry Hardings, "On the Four Great Relations": *The Prospects for China*, 36 SURVIVAL 22, 34 (1994) [hereinafter "Prospects"].

49. *Id.* at 42.

## II. TECHNICAL DEFECTS OF THE AGREEMENTS

Drafters of the 1995 and 1996 Agreements overlooked crucial issues in defining the enforcement schemes. Both countries conceded that the success of the Agreements depends on the support of local governments in China,<sup>50</sup> but the mechanisms created contained neither practical means to alleviate the economic burden on local governments nor political strategies to overcome local protectionism.

### A. *The Enforcement Machineries*

#### 1. Coordination among Administrative Officials

Large-scale infringement cases often take place in more than one jurisdiction. The 1995 Agreement contains guidelines for coordinating investigations, factory raids and prosecutions of such cases. A foreign owner or its local representative may submit a petition and any substantiating evidence to its local enforcement authority.<sup>51</sup> The agency responsible would then review the petition.<sup>52</sup> Upon approval, the local office of the IPWC will draft an action plan, which would be carried out by local enforcement officials.<sup>53</sup>

Unfortunately, such provisions failed to contemplate the potential bias against owners from other jurisdictions. Administrative agencies at the central governmental level have power to take actions against infringers,<sup>54</sup> but as policy-making bodies, they cannot do so on a routine basis due to the lack of human resources. Accordingly, the power of enforcement stays in the agencies' regional branches, where officials are subject to local pressures. Instead of imposing some checks on local enforcement, the provisions have given these officials unrestricted power in evaluating petitions, provided that they abide by the law in a loose sense, but offered owners no practical recourse against their decisions.

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50. See *Piracy*, *supra* note 16.

51. Plan, *supra* note 2, arts. I-B(6), I-B(7).

52. *Id.*

53. Plan, *supra* note 2, arts. I-A(5)(a), I-B(1)(a) & I-F(4).

54. See, e.g., Implementing Rules of Copyright Law, art. 52(2) (State Copyright Bureau shall be responsible for investigating and handling copyright infringements which have a nationwide effect or involve foreigners.)

The 1995 Agreement has established a presumably independent body—the IPWC—but has not granted the body adequate power to overcome protectionism. Regional offices of the IPWC are only able to arrange action plans; they do not have the power to actually launch any actions against infringers. The power to grant preliminary injunctions and to award remedies falls exclusively to the administrative authority having jurisdiction over the area in which the infringer is located.<sup>55</sup> Owners do not possess meaningful recourse in these cases, since appeals of an administrative decision will be adjudicated by the courts in the same jurisdiction as the administrative agency.<sup>56</sup>

A typical trademark infringement case, involving administrative agencies in different jurisdictions, demonstrates the provision's limitations.<sup>57</sup> Sanzhuang Printing House of Jian City, Jilin Province, printed royal jelly wrappings bearing the "Weijia" mark, which was owned by Dongfeng Pharmaceutical Factory of Chaoyang District, Beijing. Upon a review of Dongfeng's petition, officials from the Chaoyang AIC conducted an investigation in Jian City with expenses borne by Dongfeng. Sanzhuang admitted that it had printed 500,000 wrappings bearing the "Weijia" mark at the request of a customer. After the officials discovered that the customer was located in Guangzhou City, they sought assistance from the Guangzhou AIC but Guangzhou officials claimed that they could not find the customer. The Jian AIC imposed a fine of 30,000 yuan on Sanzhang for illegal printing and the case was closed. Counterfeit "Weijia" brand royal jellies were on sale nationwide shortly afterwards, causing Dongfeng huge economic losses. Sanzhang was only punished for illegal printing although this was a classic case of trademark infringement.<sup>58</sup> Dongfeng filed its petition on a timely basis and bore the cost of all investigative expenses, but it failed to recover

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55. See, e.g., Implementing Rule of Copyright Law, art. 52 (the copyright office of the local government is responsible for investigating and handling copyright infringements that occur within their local districts). In a trademark infringement case, the Singer Company complained of infringement to the AIC of Guanzhou, where Singer's joint venture was located. However, Singer's effort failed, since the Guanzhou AIC had no authority to pursue a case in Wuhan, where the infringer was located. Singer later filed suit in the Intermediate Court of Wuhan. Henry J.H. Wheare, *Singer Calls the Tune on Sewing Machine Infringement*, IP ASIA, July 4, 1991, at 40.

56. Supreme People's Court's Answers to Certain Questions on Trying Patent Infringement Cases, art. 6 (1992). In patent infringement cases, if the court in the same locality of the administrative authority lacks jurisdiction, the IPR holder is required to file a suit in the intermediate court of the capital of the province that encompasses the locality of the administrative authority.

57. Gao Jian and Liu Yongqing, *Weijia De Huhuan [Weijia's Cry]*, LEGAL SYSTEM DAILY, Sep.10, 1994, at 3.

58. Trademark Law, art. 38(3).

its economic losses. The unjust outcome of this case was largely a consequence of the Jian AIC's leniency toward its local company and the Guangzhou AIC's indifference toward the interests of a non-local company.

## 2. The Use of Propaganda Techniques

Both the 1995 and 1996 Agreements require the Chinese government to set aside special enforcement periods, during which enforcement officials are obliged to treat infringement cases as their top priority. Infringers arrested during this period must be prosecuted and severely punished, with their cases widely publicized.<sup>59</sup>

The use of propaganda techniques was favored by the Chinese Communist Party during the Mao era, but the potency of social campaigns in the 1990's is highly questionable.<sup>60</sup> Found in most campaigns is the "tidal wave phenomenon," in which the berated behavior vanishes during the campaign period but reemerges immediately afterwards.<sup>61</sup> These campaigns are ineffective because what they seek to correct is fundamental social behavior that cannot be changed overnight. Moreover, social campaigns are political projects that require cooperation by officials of all levels. Cooperation between central and local authorities during the special enforcement periods in 1995 and 1996 was essentially nonexistent. To the general public, the notion of intellectual property rights ran counter to

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59. Plan, *supra* note 2, art. I(C).

60. See generally, JAMES R. TOWNSEND, *POLITICAL PARTICIPATION IN COMMUNIST CHINA* (1967); Lucian W. Pye, *Mass Participation in Communist China: Its Limitations and the Continuity of Culture*, in *CHINA: MANAGEMENT OF A REVOLUTIONARY SOCIETY* 3, 33 (1971).

61. For example, the 1992-1993 anti-fake product campaign has been proven a failure. The NPC admitted that manufacturing and sales of fake products were still prevalent. The tidal wave phenomenon also appeared in this anti-fake campaign. National Committee Law Enforcement Examination Group, *Guanyu Jiancha Chuanguo Renda Changweihui Guanyu Chengzhi Shengchan Xiaoshou Weilie Shangpin Fanzui De Jueding Deng Falu Zhixing Qinkuang De Baogao* [Report on the Enforcement of National Congress' Decision on Punishing the Crime of Making and Selling Fake Commodities and Other Relevant Laws], CONGRESS GAZETTE, No.7, 1993, at 132. This campaign even failed to improve product quality. The 1993 fourth quarter's national supervision survey of product quality revealed that the qualified rate of anti-theft safeguard doors was only 25 percent. More seriously, the qualified rate of medical photosolidify apparatus (*Guang Gu Hua Ji*) was zero, although the manufacturers may face criminal punishment under the Product Quality Law and the National People's Congress' Decision on Punishing the Crime of Manufacturing and Selling Fake Products. See Hang Lewu, *Jiusan Chanpin Zhiliang Yixi Yiyu* [The Upside and Downside of Product Quality in 1993], LEGAL SYSTEM DAILY, Jan. 22, 1994, at 2. The anti-corruption campaign also failed, although CCP leaders announced that anti-corruption was vital to the survival of both the CCP and PRC.

cultural beliefs. To regional officials, the concept represented a threat to the local economy.

### 3. Consistency

The 1995 Agreement requires random inspections only in factories producing compact discs and laser discs,<sup>62</sup> and the requirement only applies during the special enforcement periods. Whether a factory may continue its operation depends on the results of the random inspection.<sup>63</sup> Thereafter, officials must give advance notice for any additional inspections. The 1996 Agreement increases the level of supervision by mandating the assignment of two full-time local officials in every compact disc factory. Other measures provided by the 1996 Agreement are temporary.

#### B. *Conflicts with Chinese Law*

##### 1. Search and Seizure

The 1995 Agreement has granted enforcement officials the power to conduct any *ex officio* action to enter and search any premises and to seize suspicious products, as long as the officials have reason to believe that there is an infringement.<sup>64</sup> While the provision facilitates actions against infringers, such power is subject to abuse and might violate due process under Chinese law.

First, the language of the provision is unclear. It stipulates that “[e]ach enforcement task force’s authority includes the authority. . .to enter and search any premises.”<sup>65</sup> Nevertheless, it is ambiguous as to whether the term “enforcement task force” refers to a team of enforcement officials, individual administrative agency representatives, or the police. The provision will conflict with Chinese law if “enforcement task force” applies to any individual team member or administrative agency. This is because under Chinese law, only the courts, the Procurator Office, and the Public Security Bureau have the right to conduct searches.<sup>66</sup>

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62. Plan, *supra* note 2, art. I-C(4).

63. Plan, *supra* note 2, art. I-C(4).

64. Plan, *supra* note 2, arts. I-B(1), I-B(4).

65. Plan, *supra* note 2, arts. I-B(1)(b).

66. Civil Procedure Law, art. 227; Criminal Procedure Law, arts. 79, 80.

Second, the provision violates Chinese law by eliminating the procedural safeguards in search and seizure. Under Chinese law, the police may only enter and search premises during criminal investigations,<sup>67</sup> and under those circumstances, the police must apply for a warrant from the Public Security Bureau or the Procurator Office except in an emergency.<sup>68</sup> It is doubtful that a belief in possible infringement of intellectual property rights would offer sufficient ground for a criminal investigation.

Third, the provision might be unconstitutional if the term "premises" includes private residences. Under Article 39 of the Chinese Constitution, "the residences of the citizens of the People's Republic of China are inviolable. Unlawful search of, or intrusion into, a citizen's residence is prohibited."

Fourth, no review or relief is available to the owner of the premises. The owner may not file a complaint with a higher administrative authority or submit an appeal to a court because such options are reserved for final decisions of administrative agencies and an *ex officio* action constitutes merely a preliminary measure.<sup>69</sup> The premise owner might also suffer serious economic loss because the provision does not require the posting of a bond by the adversarial party,<sup>70</sup> and state compensation is unavailable.<sup>71</sup> State compensation is only available in cases where the preliminary measures are deemed illegal.

The enhanced power granted to law enforcement officials will not necessarily improve the protection of intellectual property rights. Whether an infringement case can be successfully prosecuted depends largely on the various degrees of influence the complainant and the infringer have with the local government.<sup>72</sup> The major problem in law enforcement lies in local protectionism, not necessarily overprotection of infringers. Enforcement officials with enhanced power will find it easier to extort payments from

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67. Criminal Procedure Law, art. 79.

68. *Id.*, art. 81; Pretrial Rules of Public Security Administration, art. 17.

69. Implementing Rules of Trademark Law, art. 39; Implementing Rules of Patent Law, art. 77; Copyright Law, art. 50.

70. Plan, *supra* note 2, art. I-B(2).

71. State Compensation Law, art. 4.

72. A report, compiled by the Sociology Institute of the China Academy of Social Sciences as a reference guide to the State Council, recognized that local officials were increasingly using their power to extract burdensome taxes, fees and penalties from people and business entities who are already hard-pressed. See *Turning Point*, *supra* note 23.



entities with no close ties to the local government.<sup>73</sup> This could instigate a vicious circle in law enforcement. Enterprises with no political connections will be coerced into circumventing the law<sup>74</sup> while law enforcement officials will be enticed into receiving bribery from enterprises.

## 2. Burden of Proof

Neither of the two Agreements has clarified the burden of proof in infringement cases. Under Chinese law, the complainant bears the burden of proof<sup>75</sup> except with regard to patent infringement, in which the burden of proof shifts to the infringer to make its *prima facie* case.<sup>76</sup>

The burden of proof makes prosecution extremely difficult in some cases. Under the Trademark Law, a seller of counterfeit goods is liable for infringement only if he knew or should have known the counterfeit nature of the goods.<sup>77</sup> Some commentators have pointed out that proving a seller's knowledge would be difficult.<sup>78</sup>

The burden of proof also affects the award of damages. Under Article 64 of the Civil Procedure Law, the courts should undertake collection of evidence that a litigating party is unable to obtain due to objective reasons, such as information withheld by the opposing party. Nevertheless, some courts have held that the complainant is responsible for collecting evidence concerning the infringer's illegal profits, even if the complainant has no access to the infringer's financial records.<sup>79</sup>

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73. *Id.* Many private enterprises frequently complain that they are victimized by officials. To reap personal gain or show achievement, local officials have been known to harass or even shut down private enterprises through exercise of their police power. As a result, many private businesses manipulate or circumvent new laws and regulations to avoid official extortion. Susan McEwen, *New Kids On The Block; Chinese Entrepreneurs*, 21(3) CHINA BUSI. REV. 35, available in LEXIS, World Library, CURNWS File.

74. *Id.*

75. Civil Procedure Law, art. 64(1).

76. Supreme People's Court's Opinions on the Implementing of Civil Procedure Law, art. 74(1); Patent Law, art. 60(2).

77. Trademark Law, art. 38(2); Implementing Rules of Trademark Law, art. 41(1).

78. Jianyang Yu, *Protection of Intellectual Property in the P.R.C.: Progress, Problems and Proposals* (Feb. 25-27, 1994) (unpublished paper, Conference on Intellectual Property Protection in East Asia, Center for East Asian Studies, Washington University and University of Missouri-St. Louis).

79. See, e.g., Yue Zhenhua, *Langjiu Zhuce Shangbiao Zhuanyongquan Jiufen An* [*Langjiu Trademark Dispute*], FAXUE YANJIU [STUDIES IN JURISPRUDENCE], No.4, 1993, at 92 (in which the court did not render a finding on the value of the infringing products, since plaintiff did not provide such evidence). See also *Tianhuzhiguo vs. Hongmofang*, SUPREME PEOPLE'S COURT GAZETTE, No.3,

### C. Remedies

#### 1. Discretion of the Authorities

Under the damages provisions, an adjudicating authority has power to grant an injunction against the infringer, impose a fine up to five times the illegal profits, confiscate the illegal profits and infringing products, and order monetary compensation for damages suffered by the owner.<sup>80</sup> Nevertheless, a complainant can still be disappointed even if it is able to take the infringer to a civil or an administrative proceeding and substantiate its claim with strong evidence. This is because enforcement officials enjoy broad discretionary power in the award of damages. The ambiguities and loopholes in these provisions offer a convenient avenue for administrative officials to undermine the legal process and protect local interests.

#### 2. Damage Awards

The compensation formula provided for by the intellectual property laws resembles that in the United States. In trademark infringement cases, the adjudicating body may consider either profits earned by the infringer during the period of infringement or damages suffered by the complainant due to the infringement.<sup>81</sup> In patent infringement cases, the adjudicating body has several options, but the amount must not be less than a reasonable sum of royalty payments.<sup>82</sup> In contrast to trademark or patent infringement cases, there is no stated formula for determining compensation in the area of copyright infringement.<sup>83</sup> The adjudicating body effectively possesses absolute power over the award, if any, of damages.<sup>84</sup>

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1994, at 119 (plaintiff and defendant provide their own financial records to the court).

80. Trademark Law, art. 39; Implementing Rule of Trademark Law, art. 43; Patent Law, art. 60; Implementing Rule of Patent Law, art. 78; Copyright Law, arts. 45, 46; Implementing Rule of Copyright Law, arts. 50, 51 & 53; Unfair Competition Law, art. 21.

81. Trademark Law, art. 39.

82. *Supreme People's Court's Answers to Certain Problems in Patent Litigation: Item 4*, SUPREME PEOPLE'S COURT GAZETTE, No.3, 1993, at 26, 27.

83. Copyright Law, art. 46; Implementing Rules of Copyright Law, art. 53.

84. The legal representation and investigation expenses may be included in calculating the complainant's compensation in IPR infringement cases, but it is not clear what kind of evidence will be sufficient to support such compensation. See Unfair Competition Law, art. 21; *Shangdun International LLC. vs. Huada Electronic LLC.*, SUPREME PEOPLE'S COURT GAZETTE, No.4, 1992, at 148 (while awarding the compensation for trademark infringement, the court rejected the plaintiff's

Monetary awards are difficult to obtain. If a counterfeit product is manufactured and sold by different parties, damages are only recoverable if all the different parties appear as co-defendants in the same trial. Each party is only liable for its portion of the damage award. Although Article 130 of the General Principle of Civil Law provides for joint and several liability, the courts are reluctant to hold infringers of the same product as joint tortfeasors because the intellectual property laws do not contain similar provisions. In any case, joint and several liability requires a showing of a conspiracy between the parties, and evidence of this nature is difficult to obtain.<sup>85</sup>

Monetary compensation is often inadequate compared with the actual damages suffered by the owner. First, the courts are reluctant to support large damage awards. Second, evidence showing the profits earned by the infringer or the economic losses suffered by the owner is hard to obtain.<sup>86</sup> Third, an award based on an infringer's profits does not necessarily make the owner whole. In China, counterfeit products are sold at a price much lower than that of genuine products because genuine owners often enjoy monopoly positions. Fourth, a calculation based on loss of sales of the owner's product typically underestimates the losses. Not all infringements lead to a dramatic decrease in sales. A calculation based on sales of the infringer, however, is not allowed.<sup>87</sup>

### 3. Equitable Remedies

Injunction is the most common form of equitable remedy since adjudicating bodies are generally reluctant to render more severe equitable remedies, such as the destruction of all infringing goods, the destruction of related machineries, or the revocation of an infringer's business license. Officials have also been reluctant to destroy any goods with economic value,

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claim for compensation for legal representation and investigation expenses because plaintiff did not provide sufficient evidence to support this claim); *but see* China Golden Dawn Safety Technology Co. vs. Beijing Shijingshan District Zhiye Electronics Limited, CHINA LAW AND PRACTICE, Apr.11, 1994, at 19 (court held that the computer software infringer should pay the software copyright holder's costs incurred in legal representation and investigation).

85. See *supra* notes 59 & 60.

86. See *supra* note 79.

87. For example, the amount of the infringed patentee's actual economic loss is the decreased sales of the patented product as a result of the infringement, multiplied by the amount of profit from each such product. *Supreme People's Court's Answers to Certain Problems in Patent Litigation: Item 4(1)*, SUPREME PEOPLE'S COURT GAZETTE, No.1, 1993, at 26.

recognizing the public's tradition of frugality and general view of the utilitarian value of even counterfeit goods.<sup>88</sup>

In *Longquan Sword Factory vs. Wanzihao Sword Factory*,<sup>89</sup> the plaintiff's trademark was used in the defendant's swords, packages, and instruction leaflets. Plaintiff brought a trademark infringement action in the Intermediate Court of Lishui. The pleading requested an injunction and a damage award in the sum of 205,000 yuan, which was equal to the defendant's net profit from the infringement. The court ordered a preliminary injunction. Upon a request of the court, the Audit Bureau of Lishui submitted an estimate of 96,670 yuan on the defendant's net profit. At trial, the court found for the plaintiff and ordered the defendant to remove the trademark from its swords, packages, and instruction leaflets and pay 96,670 yuan in damages. But the trademark could not be removed. The court therefore ordered the destruction of all instruction leaflets, but left untouched the counterfeit swords and packages. Here, the court apparently interpreted the phrase "difficult to separate" in the Trademark Law as meaning "unable to remove".<sup>90</sup> The Supreme People's Court acquiesced in this strict interpretation of the law.<sup>91</sup>

Prior to 1995, destruction of goods and machineries was only available in trademark infringement cases.<sup>92</sup> The trademark owner has to prove that other remedies would be insufficient or that the trademark could not be removed from the counterfeit goods.<sup>93</sup> The 1995 Agreement expanded the scope of remedies to copyright cases. The authorities must confiscate all counterfeit audio-visual products as well as the raw materials, unassembled

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88. See, e.g., *Yuqi Tobacco Factory vs. Pingtan County Government*, FAXUE ZHAZI [LEGAL JOURNAL], No.3, 1988, at 46, 47 (local government distributed confiscated fake cigarettes to law enforcement units and personnel as awards).

89. SUPREME PEOPLE'S COURT GAZETTE, No.3, 1988, at 27.

90. Implementing Rules of Trademark Law, art. 43.

91. In another Supreme People's Court-endorsed judgment, plaintiffs sued defendants for patent and trademark infringement, alleging that defendants used plaintiffs' patent and trademark to make and sell magnetic mugs. *Guo Liwen vs. Lamp Company of Gaochun County*, SUPREME PEOPLE'S COURT GAZETTE, No.1, 1994, at 43. The court found that defendants infringed plaintiffs' patent and trademark rights, and ordered that defendants compensate plaintiffs' losses. However, the opinion did not mention how to handle those counterfeit products.

92. Implementing Rule of Trademark Law, art. 43. This article provides that "the administration for industry and commerce may adopt the following measures to halt the infringement activity. . . (5) order the destruction of goods relating to infringement of the exclusive right if the preceding four measures are insufficient to halt the activities involved in the infringement, or if it is difficult to separate the trademark involved in the infringement from the counterfeit commodities."

93. *Id.*

components and machineries directly and predominantly used in manufacturing.<sup>94</sup>

Nevertheless, destruction of counterfeit products is still prohibited under Chinese law. In addition, officials are not obligated to destroy the raw materials, unassembled components and machineries so long as the infringer can prove that they are useful in other areas, and therefore do not fall into the "directly and predominantly" category.

Prior to 1995, officials did not have the power to revoke the business license of infringers, even those who were repeat offenders. Under the 1995 Agreement, the AIC must revoke the business license of an infringer who has been found guilty of infringement in a "serious manner" on more than one occasion<sup>95</sup> and must suspend the infringer's right to operate in the same area for three years.<sup>96</sup>

Unfortunately, the new provision in practice does not pose a serious threat. Six of the seven major counterfeit compact disc factories closed down in 1995 reopened in less than one year.<sup>97</sup> The provision is deficient in four aspects. First, the term "serious manner" was not defined, thus providing a leeway for local authorities. Second, the new provision is not retroactive. Repeat offenders include only those who have been convicted more than once after 1995. Third, local authorities would not support the provision, as this would create unemployment. Fourth, infringers are often incorporated entities, from which it is easy to transfer assets to a new enterprise and resume the same business activity. The 1996 Agreement puts a stop to this practice. Under the amended provision, owners of such entities do not have an ownership claim to the forfeited or liquidated assets.<sup>98</sup> However, the amended provision only applies to enterprises explicitly identified in the 1996 Agreement.

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94. Plan, *supra* note 2, art. I-D(1).

95. Plan, *supra* note 2, arts. I-E(3), I-F(1).

96. *Id.*

97. *See supra* note 17.

98. "For each factory listed, China has seized and confiscated the materials and machinery directly and predominately used to manufacture the infringing products...Neither the products nor any assets forfeited or subject to liquidation will be returned to the former owner." *See* "Seizure of Equipment, Including Presses," 1996 Agreement.

### III. A JUDICIAL APPROACH TO PENETRATING LOCAL PROTECTIONISM

Because the enforcement of intellectual property laws remains largely in the hands of local governments, foreign investors should analyze the practices of the local authority where their factories are situated. As a commentator summarized, "foreigners who want to trade with China are best advised to think in terms of provinces or localities. It is [the local authorities] who can guarantee the transparency of global trading regulations or resolve disputes over intellectual property."<sup>99</sup>

Foreign corporations generally prefer an administrative over a judicial solution. Litigation is viewed as a last resort.<sup>100</sup> Nearly all the enforcement mechanisms addressed by the 1995 and 1996 Agreements are administrative, except for the provisions dealing with an owner's right to seek judicial remedies<sup>101</sup> and the need for judicial training on intellectual property laws.<sup>102</sup>

Although many believe that administrative recourse provides a more expeditious and less expensive solution for infringement cases, the solution will only be effective when the infringer does not have a close relationship with the local government. In instances where local protectionism is strong and the infringements are cross-jurisdictional, a judicial recourse would likely be the more effective course of action.

Litigation is generally viewed by the Chinese public as expensive, time-consuming and ineffective. Nevertheless, the public's aversion to litigation is changing and there has been a recent surge in IPR-related litigation.<sup>103</sup> In addition, the courts offer advantages to owners that are not available from administrative agencies.

First, judicial officials receive better training in the intellectual property regime. Under a Supreme People's Court order, senior judges with technical backgrounds and foreign language skills are to be appointed to intellectual property tribunals or divisions.<sup>104</sup> At the same time, the quality

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99. See Segal, *supra* note 47, at 58.

100. See SPECIAL REPORT, *supra* note 17, at 54-57.

101. Plan, *supra* note 2, art. I-B(6).

102. Plan, *supra* note 2, art. II-A(2).

103. See, e.g., Geoffrey Crothall, *Courts Swamped by Economic Disputes*, SOUTH CHINA MORNING POST, Sept. 27, 1995, at 11 (in the first eight months of 1995, 2,500 IPR cases were heard in the courts of China, compared to a total of 4,000 cases from 1986 to 1994).

104. *Supreme People's Court's Circular on Strengthening Judicial Protection of IPR*, SUPREME PEOPLE'S COURT GAZETTE, No.4, 1994, at 139 [hereinafter "Circular"].

of judges has been steadily improving. In 1992, the Supreme People's Court and 20 high courts offered special training sessions for judges. 66.6% of the staff in the judicial system were college graduates, compared with 17.1% in 1987.<sup>105</sup> In contrast, there are no similar legal education programs in the administrative system.

Second, there is less corruption in the judicial system, partly because the judiciary is subject to a better supervisory mechanism. All judicial decisions are group decisions. Most cases are adjudicated by a collective tribunal; high profile cases are adjudicated by the Judicial Committee of the court.

Third, courts respond more promptly than administrative agencies. In a civil case, the court can issue a preliminary injunction within 48 hours should it deem an injunction necessary. The complainant may also request a raid on the infringer's premises if it can prove that such action is necessary to preserve evidence or protect its property interests.<sup>106</sup> If a complainant can produce sufficient evidence that immediate action is required, the court may even issue preliminary measures before the complainant's submission of court papers.<sup>107</sup> Courts also have the power to issue search warrants, impose fines, or detain suspects if anyone disrupts the investigation, refuses to cooperate, defies an injunction, or ignores a court judgment.<sup>108</sup> All these coercive measures weaken any special connections enjoyed by the defendant.

Both forum shopping and criminal action are powerful tools available only in the judicial context, especially if the foreign owner has investments in China. A local government has a political incentive to protect foreign investors, who provide employment opportunities and generate revenues. The government is more willing to take action when the foreign investor has a government-linked partner and the government's own interest is at stake.<sup>109</sup>

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105. See *Working Report*, *supra* note 31, at 58.

106. Civil Procedure Law, arts. 74, 93.

107. *In re Jingjiang Trading Company*, SUPREME PEOPLE'S COURT GAZETTE, No.2, 1993, at 66. The opinion of the case was endorsed by the Supreme People's Court.

108. Civil Procedure Law, arts. 102, 103: "Coercive Measures Against Obstruction of Civil Litigation." Also see Supreme People's Court's Opinions on Implementing Civil Procedure Law, SUPREME PEOPLE'S COURT GAZETTE, 1995, at 540,548.

109. There was immediate official action after Beijing Jeep, a joint venture between Chrysler and a state-owned Chinese enterprise, discovered more than 200 fake copies of its jeeps in Yunnan province. The infringer paid Beijing Jeep 680,000 yuan in compensation. *Zhongwai Hezi Qiye Chengong Zi Lu* [The Successful Road of Sino-foreign Joint Venture], LEGAL DAILY, Jul.25, 1994, at 2; Tom Grimmer, *Finding Protection from Asia Ripoff Artists*, THE FINANCIAL POST, Jul. 13, 1994.

### A. *Forum Shopping*

The attitude of local governments determines the standard of enforcement. Accordingly, forum shopping is crucial. An owner should look for a locality favorably disposed towards upholding its intellectual property laws.<sup>110</sup> The outcomes of previous cases were disappointing for the foreign owners because the suits were filed in jurisdictions where the respective infringers were located and thereby "protected." Forum shopping can overcome an infringer's strong influence in the local law enforcement apparatus.

The courts are also more powerful than administrative agencies. While an administrative agency may only take action against infringers located in the same area, a court, under proper procedure, may institute preliminary measures against the infringer no matter where it is located.<sup>111</sup> In the past, a court could only detain a suspect with the consent of the suspect's local court.<sup>112</sup> The Supreme People's Court has recently waived this requirement, apparently out of a concern for the undue influence of local protectionism. In a breach of contract case, *Yanbian Leather Factory vs. Mishan City Shoe Factory*,<sup>113</sup> the defendant's place of business was in Mishan City, Heilongjiang Province whereas the breach took place in Longjing City, Jilin Province. The City Court of Longjing City rendered a default judgment against the defendant and ordered bailiffs to seize the defendant's properties in Mishan City. With the support of the local enforcement authority, the defendant regained the confiscated properties. The City Court of Longjing held that the defendant had seriously obstructed justice and, citing Articles 102(1)(2) and 105 of the Civil Procedure Law, detained the manager and assistant manager of the defendant's company, who were in Mishan City at the time. The defendant ultimately complied with the court's order and

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at 13. Mr. Grimmer correctly pointed out that engagement, not threats and withdrawal, is the answer to protect foreign companies' IPR in China. American computer and software industries have also begun to adopt a similar approach. *See also* Julie Pitta, *Guanxi*, *FORBES*, Oct. 10, 1994, at 132.

110. The National People's Congress and Supreme People's Court admitted that in recent years local judicial authorities often exceeded their jurisdiction or fought for jurisdiction to protect their local interests. *See* Judicial Committee, *Civil Procedure Report*, *supra* note 32; Ren Jianxin, Zhuigao Renmin Fayuan Gongzhuo Baogao [*Supreme People's Court Working Report*], *SUPREME PEOPLE'S COURT GAZETTE*, No. 2, 1991, at 47 [hereinafter "1991 Working Report"].

111. *See supra* notes 58-60.

112. Supreme People's Court's Opinions on Implementing the Civil Procedure Law, art. 115 [hereinafter "Opinions on Civil Procedure"].

113. *SUPREME PEOPLE'S COURT GAZETTE*, No. 3, 1993, at 110.



surrendered the confiscated properties. Here, the City Court of Longjing had not sought the approval of the City Court of Mishan<sup>114</sup> and the decision was upheld by the Supreme People's Court.

## 1. Trademark, Copyright, and Unfair Competition Cases

Under Article 118 of the General Principle of Civil Law, trademark infringement, copyright infringement and unfair competition cases are classified as torts. The courts located in the "place of the infringement" or the "defendant's domicile" have jurisdiction over a tort action.<sup>115</sup> The "place of infringement" is defined as the place where the infringement is committed or injury is caused.<sup>116</sup> The "defendant's domicile" is defined as the residence or place of business of the defendant.<sup>117</sup>

If the foreign owner<sup>118</sup> has an investment in China, the best forum would probably be the place where his investment is located,<sup>119</sup> provided that the place is also where the infringement has caused injury. The courts may hold that injury does not only happen in places where the illegal product is manufactured, sold or used, but also occurs in places where the owner's business is based. In practice, however, a foreign owner usually would need to possess a considerable degree of influence in the local government before a local court would give such a broad interpretation.

The second alternative would be a forum with a good reputation for intellectual property protection.<sup>120</sup> The owner would have a choice among forums where the illegal product is manufactured, sold or used.

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114. See Opinions on Civil Procedure, *supra* note 113.

115. Civil Procedure Law, art. 29; Implementing Rules of Copyright Law, art. 42.

116. See Opinions on Civil Procedure, *supra* note 113, art. 28.

117. See Opinions on Civil Procedure, *supra* note 113, art. 4.

118. Foreign IPR holders, their representatives or their exclusive licensees are entitled to bring IPR infringement actions. Plan, *supra* note 2, art. I-B(4).

119. Some Chinese IPR holders have already adopted this strategy. In *SunTendy v. Taisen*, the plaintiff, a Beijing computer software company, sued the defendant, a computer company located in Taiyuan, Shanxi province, for copyright infringement in the IP tribunal of Beijing Intermediate Court. The court ruled in favor of the plaintiff. The report did not mention the jurisdictional basis of the case. See Jeffrey Parker, *China Software Firm Eyes Precedent in Piracy Case*, REUTER ASIA-PACIFIC BUSI. REP., Jun. 21, 1995, available in LEXIS, World Library, CURNWS File.

120. IP tribunals of Beijing Intermediate Court and Shanghai Intermediate Court have a good reputation for protecting IPR, and judges in these courts usually have better training and experience in handling intellectual property infringement cases. Moreover, these courts are more likely to have jurisdiction over the case, since most pirated products can be found in the markets of these economic centers.

The third option would be to file the suit at the infringer's place of residence or place of business.

## 2. Patent Cases

Unlike in the trademark and copyright infringement context, forum shopping is highly restricted in patent infringement, even though such infringement is also classified as a tort. The difference is largely due to the scientific complexity of patent cases. In 1987, the Supreme People's Court issued the Circular on Jurisdiction of Patent Infringement ("Circular"). The Circular provides that the forum for a patent infringement case is the place where the infringing products are manufactured unless the place of manufacture is unclear, in which case the forum is "the place where the infringing products are sold or used."<sup>121</sup>

The Circular's restriction of forum to where infringers have the strongest influence violated the principle of the Civil Procedure Law of 1991, which argues against the endurance of local protectionism.<sup>122</sup> Accordingly, a number of courts have made broad interpretations of the language in the Circular. In *Liu vs. Li*, the plaintiff, a resident of Beijing, filed a patent infringement suit in the Intermediate Court of Beijing. The defendant was a resident of Liaoning Province, who obtained the patented products from a manufacturer in Jilin Province and subsequently sold them in Beijing. Agreeing with the defendant's argument regarding a lack of jurisdiction, the Intermediate Court of Beijing transferred the case to the Intermediate Court of Jilin Province according to Item 1 of the Circular. On appeal, the High Court of Beijing reversed the Intermediate Court's ruling, holding that the forum transfer would severely hamper the investigation and conflict with the legislative intent of the Civil Procedure Law.<sup>123</sup>

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121. *Circular*, supra note 104, item 1. Under this provision, if the infringer manufactures, uses or sells invention or utility model patented products, or manufactures or sells products for which there is a design patent, but without the patentee's permission, the court of the place of manufacture shall have jurisdiction.

122. Aiming to solve local protection problems, the jurisdiction provisions of the 1991 Civil Procedure Law were drafted based on the following legislative considerations: 1) fair trial; 2) convenience of the litigating parties; and 3) convenience of the trial and enforcement. See Wang Hanbin, *Guanyu Zhonghua Renmin Gongheguo Minshi Susongfa Shixing Xiugai Caoan De Shuoming* [Explanation on the Civil Procedure Law (Draft)], NATIONAL PEOPLE'S CONGRESS GAZETTE, No.3, 1991, at 49. Mr. Wang is the chairman of the Legislation Committee of the NPC.

123. CHINA LAW & PRACTICE, June 11, 1992, at 23.

In a reply to the High Court of Beijing, the Supreme People's Court stated that:

When different parties perform different acts of infringement of a single patented product in different areas, the patentee may institute separate proceedings against the infringing acts of manufacture, sale and use in the People's Courts of the places where such acts occur, and such People's Courts shall have the jurisdiction.

The Supreme People's Court's position has increased flexibility in forum shopping because it held that the general rules of the Civil Procedure Law of 1991, instead of the Circular, would apply if the case involves more than one infringer. Under the Civil Procedure Law of 1991, when two or more courts have jurisdiction over a case, the plaintiff may elect to file its suit in any one of the courts.<sup>124</sup> As a plaintiff may bring a joint action against two or more defendants so long as the claims involve the same subject matter, the patent owner usually can choose a forum in any one of the places where the infringement occurred.<sup>125</sup>

The Supreme People's Court's reply enables a patent owner to enjoy the same freedom in the choice of forum as an owner of a trademark or a copyright, provided that there is more than one infringer. Depending on the particulars of the case, the owner may file the suit in a forum where it has investments or in a forum with a good reputation for intellectual property protection.

If there is only one infringer involved, a patent owner may consider the possibility of combining its infringement action with a passing-off action.<sup>126</sup> Under the Circular, if the case involves an action of passing-off, the forum can be "the place where injuries occurred."<sup>127</sup>

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124. Civil Procedure Law, art. 35.

125. *Id.*, art. 53; also see Opinions on Civil Procedure, *supra* note 113, art. 58.

126. See, e.g., Guo Liwen vs. Lamp Company of Gaochun County, SUPREME PEOPLE'S COURT GAZETTE, No.1, 1994, at 43 (plaintiff brought a joint action against defendants, manufacturer and seller of infringed products, for patent infringement, trademark infringement and trade name passing-off in the court of the place where the counterfeit products were sold).

127. Circular, item 6.

### B. Criminal Actions

The threat of a criminal action is a powerful tool for an owner.<sup>128</sup> Law enforcement officials have more power in investigating a criminal action because many coercive measures available under criminal procedures are not permitted in civil cases.<sup>129</sup> Furthermore, a finding of criminal guilt will not release an infringer from civil liability. The owner therefore may file a supplemental civil action in the same criminal proceeding.<sup>130</sup>

Accordingly, an owner should consider initiating a criminal proceeding against the infringer. The strategy has three advantages. First, the potential criminal penalties will put stronger pressure on the infringer to settle the case. Second, the action will give the enforcement officials greater power to investigate. Third, local officials who are closely connected with the infringer will be hesitant to intervene. Officials found "providing assistance or protection to a criminal defendant" are subject to criminal charges as well.<sup>131</sup>

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128. For instance, in Taiwan, the threat of a criminal action has proved to be the most effective strategy against infringers. See Robin J. Winkler, *Taiwan*, IP ASIA, June, 1995, at 53.

129. Many local procurator offices use coercive criminal procedure measures to force an outside party's payment resulting from civil adjudication. In less than a two-and-a-half year period, Supreme Procurator Offices issued three circulars to prohibit local procurator offices from interfering with civil disputes. However, this problem still persists. *Supreme Procurator Office's Circular on Prohibiting the Demand of Payments for Local Entities in the Name of Procurator Office* (Apr. 16, 1990), ZHONGHUA RENMIN GONGHEGUO FALU QUANSHU [COLLECTION OF THE LAWS OF THE PEOPLE'S REPUBLIC OF CHINA] [hereinafter "COLLECTION"] 173 (1993); *Supreme Procurator Office's Circular on Procurator Offices Participating the Demand of Payments without Authority* (Jan. 10, 1991), COLLECTION 173; *Supreme Procurator Office's Circular on Prohibiting Illegal Arrest in Economic Disputes* (July 31, 1992), COLLECTION 169.

130. Criminal Law, art. 53.

131. "State personnel who take advantage of their office to intentionally protect from prosecution units or persons who they clearly know to be guilty of crimes listed by the Stipulation, shall be prosecuted by applying *mutatis mutandis* Article 188 of the Criminal Law. State personnel who are responsible for investigating or prosecuting the crimes listed by the Stipulation, but fail to do so, shall be prosecuted by applying *mutatis mutandis* Article 187 or Article 188 of Criminal Law." National People's Congress Standing Committee's Supplemental Stipulation on Punishing Counterfeit Trademark Crime, art. 4. A similar provision also appears in article 10 of the National People's Congress Standing Committee's Decision on Punishing Crime of Manufacture and Sale of Fake Commodities.

## 1. Statutory Authority

Under Chinese law, infringers are criminally liable when their acts involve gross violations of intellectual property rights, which include: 1) unauthorized use, manufacture or sale of registered trademarks, 2) unauthorized use, manufacture or sale of registered trade dress, 3) unauthorized copy and distribution of printed works, audio-visual works, computer software or other copyrighted works, 4) willful sale of unauthorized copies of copyrighted works, and 5) serious patent passing-off.<sup>132</sup> In recent years, administrative agencies and the courts have imposed criminal penalties on defendants in several infringement cases.<sup>133</sup>

A showing of commercial purpose is essential to a finding of criminal liability.<sup>134</sup> Intent, however, is not required in case of 1) unauthorized use of a registered trademark in connection with the same kind of goods,<sup>135</sup> 2) unauthorized manufacture of registered trade dress,<sup>136</sup> and 3) unauthorized copy and distribution of copyrighted work.<sup>137</sup> In other words, proof of knowledge of infringement on the part of a manufacturer is often not necessary but is usually required.<sup>138</sup> In practice, law enforcement officials are more vigilant in acts committed with a criminal intent. To bolster its case, an owner should therefore send pre-litigation warning letters to the infringer, even if proof of intent is not strictly necessary under the statute.

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132. National People's Congress Standing Committee's Supplemental Stipulation on Punishing Counterfeit Trademark Crime, art. 4.

133. Trademark Law, art. 40(3); *National People's Congress Standing Committee's Supplemental Stipulation on Punishing Counterfeit Trademark Crime* (1993), 1993.1 SUPREME PEOPLE'S COURT GAZETTE 4; *Temporary Stipulation of the Office of the Supreme Procurator on the Criteria of Counterfeit Trademark Crime Charges* (1992), 1993.1 ZHONGHUA RENMIN GONGHEGUO ZUIGAO RENMIN JIANCHAYUAN GONGBAO [GAZETTE OF THE OFFICE OF THE SUPREME PROCURATOR OF PRC] 25; Patent Law, art. 63; *National People's Congress Standing Committee's Decision on Punishing Crime Involving Copyright Infringement* (1994), NATIONAL PEOPLE'S CONGRESS GAZETTE, No.16, 1994, at 704; Supreme People's Court's Interpretation on the Decision of NPC on Punishing Copyright Infringement Crime (1995), SUPREME PEOPLE'S COURT GAZETTE, No.1, 1995, at 23; Unfair Competition Law, art. 21(2); *National People's Congress Standing Committee's Decision on Punishing Crime of Manufacture and Sale of Fake Commodities* (1993), SUPREME PEOPLE'S COURT GAZETTE, No.3, 1993, at 87.

134. National People's Congress Standing Committee's Decision on Punishing Crime Involving Copyright Infringement [hereinafter "Copyright Infringement Decision"], arts. 1, 2.

135. National People's Congress Standing Committee's Supplemental Stipulation on Punishing Counterfeit Trademark Crime, [hereinafter "Trademark Infringement Decision"], art. 1.

136. Trademark Infringement Decision, *supra* note 136, art. 2.

137. Copyright Infringement Decision, *supra* note 135, art. 1.

138. Trademark Infringement Decision, *supra* note 136, art. 1(2); Copyright Infringement Decision, *supra* note 135, art. 2.

## 2. Choice of Forum

Forum shopping is easier in a criminal action because the courts and administrative agencies have greater jurisdictional power over criminal cases.<sup>139</sup> An owner may choose either the forum where "the crime was committed" or the forum where "the accused resides."<sup>140</sup> The courts have not defined the meaning of the phrase "where the crime was committed." Nonetheless, Chinese legal scholars have suggested that the phrase refers to "places where the crime is prepared, where the crime is committed, where the crime has caused consequences, or where the illegal property was sold."<sup>141</sup> The scholars' opinions have been followed by the trial courts.

Unlike civil cases, an owner is rarely prevented from bringing the suit in its own place of business in a criminal action. This is because the jurisdiction of an authority in a criminal case is rarely challenged, especially at the investigation stage.

The owner enjoys significant advantages over the infringer in a criminal case. Under Chinese law, the accused is powerless during the pretrial period; no discovery process is allowed.<sup>142</sup> The owner would have collected all the important evidence before the trial commences and the infringer may only request a change of forum once the trial has begun.

## 3. Procedures

Although individuals may initiate their own criminal actions under Chinese law, owners of intellectual property rights do not need to do so in theory. Administrative agencies bear the responsibility of invoking an indictment against the infringer at the Procurator Office if the nature of an infringement is serious.<sup>143</sup> In practice, however, administrative agencies exercise significant discretion in determining their course of action, and they

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139. See *supra* note 128.

140. *Id.*

141. See, e.g., ZHANG ZHIPEI, XINSHI SHUSONG FA JIAOCHEN [TEXTBOOK OF CRIMINAL PROCEDURE LAW] 112 (1984); YAN DUAN, XINSHI SHUSONG FA JIAOCHEN [TEXTBOOK OF CRIMINAL PROCEDURE LAW] 76 (1986).

142. Reply of the Supreme Procurator's Office on Whether Lawyers Are Allowed to Look up the Files of the Cases Which the Procurator Offices Have Exempted from Prosecution (1985), COLLECTION 250 (1989).

143. See, e.g., Implementing Rules of Trademark Law, art. 45,

often dismiss a case upon the payment of a fine by the infringer.<sup>144</sup> They have a monetary incentive to do so because an administrative agency may retain a portion of the fine as compensation for operating expenses.<sup>145</sup> Moreover, administrative officials are often susceptible to local protectionism.

An owner should therefore elect to file its own complaint with the Public Security Bureau or the Procurator Office, agencies which possess broad investigative power. With sufficient evidence, an owner may also directly file a criminal complaint to the court.<sup>146</sup> However, foreign owners must go through the Public Security Bureau or the Procurator Office.<sup>147</sup>

#### 4. Penalties

A person convicted of infringement will be subject to imprisonment up to seven years. If the illegal act involves willful manufacturing or sale of counterfeit products, particularly drugs and agricultural chemicals, the convict will be subject to life imprisonment or even the death penalty.<sup>148</sup> The courts may at the same time impose a fine or order confiscation of the infringing goods.<sup>149</sup> If the infringer is an organization, either private or state-owned, the entity will be responsible for the monetary damages, while the person in charge will be sentenced accordingly.<sup>150</sup>

An owner usually enjoys some leeway in selecting the statute on which its claim is based since consumer products are often protected under different statutes, the respective scopes of which may overlap. For example, the manufacture and sale of counterfeit products is directly regulated by the National People's Congress Standing Committee's Decision on Punishing the Crime of Manufacture or Sale of Fake Commodities ("Fake

144. Administrative authorities in seven provinces and municipalities handled 22,695 cases involving fake commodities from January to September in 1993. However, only 484 of those cases were referred to judicial authorities for criminal investigation. Enforcement Committee, *Fake Commodities Report*, *supra* note 62, at 132.

145. See 1993 Working Report, *supra* note 33, at 54.

146. Supreme People's Court's Circular on Strengthening the Judicial Protection of Intellectual Property, Item 2, SUPREME PEOPLE'S COURT GAZETTE, No.4, 1994, at 139.

147. Plan, *supra* note 2, 1-B(6); "Further Rightholder Participation," 1996 Agreement.

148. National People's Congress Standing Committee's Decision on Punishing Crime of Manufacture and Sale of Fake Commodities, arts. 1, 2(1) & 6.

149. See Criminal Law, *supra* note 131.

150. Trademark Supplemental Stipulation, *supra* note 134, art. 3; Copyright Decision, *supra* note 134, arts. 3, 4 & 5; Fake Commodities Decision, *supra* note 134, arts. 9, 12.

Commodities Regulations"). At the same time, the offence may fall under the categories of "manufacturing or sale of counterfeit products with registered trademarks" under the Trademark Law or "patent passing-off" under the Patent Law.<sup>151</sup> It is important to select the most appropriate statute because both criminal penalties and mental state requirements may.<sup>152</sup> In a patent infringement case that involves passing-off, for example, an owner might prefer the Fake Commodities Regulations over the Patent Law because the standards for defining infringement are clearer in the former.

## V. CONCLUSION

The United States has entered into similar bilateral agreements on intellectual property protection with other developing countries, striving to protect the economic interests of US corporations through the use of trade sanctions.<sup>153</sup> This trade-based policy, however, neglects the political, economic and social infrastructures of a developing country. To preserve its global competitiveness in the long-run, the United States must secure adequate intellectual property protection for its technological exports. But the policy pursued to date may instead impair its interests by damaging the country's foreign relations and overseas investments.<sup>154</sup>

151. The Fake Commodities Decision did not define "fake commodity." However, according to Article 1 of the State Council's Circular on Severely Punishing the Illegal Activities of Manufacture and Sale of Fake Commodities of 1992, fake commodities include commodities with counterfeit registered trademarks, geographical indications, trade names, certifications, or licenses.

152. Before the National People's Congress Standing Committee's Decision on Punishing Crime of Manufacture and Sale of Fake Commodities was issued on July 2, 1993, in serious trademark infringement cases, courts sometimes applied Article 118 of the Criminal Law and the National People's Congress Standing Committee's Decision on Severely Punishing Criminals Who Seriously Undermine the Economy to find defendants guilty of speculation and profiteering, thus imposing much harsher penalties. See *Counterfeit Cigarette Seller Receives Death Penalty*, CHINA LAW & PRACTICE, Oct. 14, 1993, at 24; *Counterfeit Spirit Manufacturer Receives Death Penalty*, CHINA LAW & PRACTICE, Jan. 14, 1993, at 20.

153. Theoretically, Special 301 unilateral action is contrary to the letter and spirit of the GATT, because it is arbitrary and violates the integrity of the multilateral process. See GATT, art. XXIII; TRIPS, art. 64; Ted L. McDorman, *Unilateralism (Section 301) to Multilateralism (GATT): Settlement of International Intellectual Property Disputes After the Uruguay Round*, in INTERNATIONAL TRADE AND INTELLECTUAL PROPERTY 119, 132-133 (1994); Donald E. deKieffer, *U.S. Trade Policy Regarding Intellectual Property Matters*, in INTERNATIONAL TRADE AND INTELLECTUAL PROPERTY 97, 108 (1994); David Hartridge & Arvind Subramanian, *Intellectual Property Rights: The Issues in GATT*, 22 VAND. J. TRANSNAT'L L., 893, 909 (1989) (noting that to abandon unilateral sanctions is one of the most important bases of TRIPS).

154. See also Carlos Alberto Primo Braga, *The Economics of Intellectual Property Rights and the GATT: A View From the South*, in TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY 263 (1990) (foreign sanction may negatively affect domestic support for a stronger protection of



In addition to cost, there are other significant limitations to the use of a trade-based strategy. The 1995 and 1996 Agreements were secured through economic coercion, yet no promising improvement of intellectual property protection has occurred in China. In the meantime, Sino-American relations have fallen to their lowest point since 1989. This article has explored the issue from another perspective with the following premises.

First, given that inadequate intellectual property protection is only one of the many nontariff barriers in international trade, it might not be worthwhile for the United States to risk a trade war in return for illusory enforcement agreements on this subject. The United States should instead utilize its strong economic power to push for wider market access and lower export tariffs.

Second, the United States should be cautious in interfering with the law enforcement mechanism of a foreign country. Law enforcement encompasses a country's internal political and judicial structure as well as civil rights issues. Tightening the enforcement measures without carefully considering the safeguards for due process can be extremely harmful. A hasty change may grant excessive power to administrative authorities and result in short-term IPR protection at the expense of fundamental human rights.

Third, a sound system for intellectual property protection must fit the cultural values, economic position, and social infrastructure of individual countries.<sup>155</sup> As Professor Alford points out, "[t]here is on mainland [China] far too little of the human, political, economic, and legal infrastructure that is necessary if the intellectual property laws drawn from foreign examples are to yield concrete results remotely comparable to those produced by such models in their original jurisdictions."<sup>156</sup> No easy, short-term solution exists for these complex problems.

Fourth, better intellectual property protection may be achieved via more positive channels. For example, the USTR could issue guidelines for industry leaders by tabulating the law enforcement records of different

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intellectual property rights); William P. Alford, *Intellectual Property, Trade and Taiwan: A GATT-Fly's View*, 1992 COLUM. BUS. L. REV., 105-106 (observing that the US pressure aroused resentment against the US government and Chinese citizens representing foreign IPR holders in Taiwan and that the US government's unilateral sanctions might ruin the cooperation of the Chinese government in global affairs) [hereinafter "A GATT-Fly's View"].

155. See *Patent Law Harmonization*, *supra* note 22, at 154 ("Blind acceptance of a Western IP model in all of its particulars may be neither appropriate to nor successful in alternative cultures").

156. See *A GATT-Fly's View*, *supra* note 154, at 106.

regions in China. This will assist in their planning of investment projects. The lure of foreign investment will encourage local governments to respect the rule of law without risking a trade war.

Fifth, the Chinese government must revamp its law enforcement mechanisms, which have been severely tarnished by local protectionism in recent years. Bearing in mind the delicate balance among the central and provincial political powers, the central government should gradually sever the financial and personnel ties between the courts and local officials to restore a national judicial system.

Finally, China's entry to the WTO would benefit the United States because the WTO's dispute-resolution tribunal would become available for intellectual property cases. This will also avoid a direct confrontation between the two countries and provide some degree of flexibility for the Chinese government to make concessions and minimize the impasse of negotiations.

If China joins the WTO, it would enjoy a five-year transition period to conform its intellectual property laws with international standards. This cushioning period would hopefully assist China's economic and political transition.<sup>157</sup> When a free market economy is fully-developed, domestic enterprises will recognize the importance of protecting intellectual property rights as they begin making substantial investment in their own research and marketing. This will eventually create a stable, cooperative, and conciliatory environment for intellectual property protection.<sup>158</sup>

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157. TRIPS, *supra* note 156, art. 65.

158. The efficient structure of private property rights and the free market economy are the foundations of Western IPR regimes. See *Patent Law Harmonization*, *supra* note 22, at 158-171; see generally Douglass C. North, *Structure and Change in Economic History* (1981).