

# A CRITICAL LOOK AT WESTERN PERCEPTIONS OF CHINA'S INTELLECTUAL PROPERTY SYSTEM

BRIAN J. SAFRAN\*

I.	Introduction .....	136
II.	Context/Background .....	138
A.	Brief History of China's Intellectual Property System .....	138
B.	Western Perceptions of China's Intellectual Property System Today.....	141
III.	Theoretical Framework- Theory of Reasoned Action .....	142
IV.	Data Presentation and Analysis .....	147
A.	Substantive Law Protecting IP in China.....	147
1.	Patents .....	147
2.	Copyrights .....	148
3.	Trademarks .....	149
4.	Trade Secrets .....	150
B.	Specific Procedures for Protecting IPR in China .....	151
1.	Registration Procedures.....	151
2.	Enforcement Procedures.....	153
a.	The Judicial Option.....	153
b.	The Administrative Option.....	158
c.	Criminal Enforcement.....	161
C.	Note on China's Indigenous Innovation Policy .....	162
V.	International Law Affecting IP Enforcement in China.....	165
A.	World Intellectual Property Organization (WIPO) .....	165
B.	World Trade Organization and the TRIPS Agreement.....	167
VI.	Note on the Impact of Confucian Culture on China's Legal System....	170
VII.	Analyzing the Enforcement Potential .....	171
A.	Case Law Pertaining to Intellectual Property.....	171
B.	The Challenges Facing the Western Multinational Corporation Operating in China .....	178
C.	Best Practices and Winning Strategies among Multinational Corporations in China.....	179

---

\* M.S. in Global Affairs (*with distinction*), New York University (2012); B.A. in Political Science (*summa cum laude*), Hofstra University (2007). The author would like to thank Professor Everett E. Myers for his insights from the initial conception of this project in Beijing and Shanghai, to his assistance during the preparation of the final product in New York. A preliminary part of this article was previously discussed by the author. See Brian J. Safran, *A Critical Look at Western Perceptions of China's Intellectual Property System*, 8 N.Y.U. J. POL. & INT'L AFF. 97 (Spring 2011), available at <http://www.nyu.edu/clubs/jpia.club/PDF/SPRING2011.pdf>.

VIII. Conclusion .....	182
A. The Implications for the Western Multinational Corporation.....	182
B. Policy Recommendations .....	183

## I. INTRODUCTION

Intellectual Property Rights (hereinafter, “IPR”), are a body of rights that have long been recognized under international and national law as being a mechanism to incentivize innovation; the means by which to encourage the creation of new inventions in order to propel economic growth in an economy at large, as well as to promote technology transfer and diffusion to render it easier for more people to share in the welfare of human creativity and knowledge, in order to promote social and economic progress and raise living standards.<sup>1</sup> Within the scope of these rights is the protection of patents for a product or process, trademarks for a logo, and copyrights for literary or artistic works. In addition, rights are extended to provide for the protection of undisclosed information or trade secrets (e.g. for a recipe or formula), industrial designs (e.g. for the design of industrial components), and geographic indications (e.g. a reference to a geographic region which acts as a means of certification of the quality of certain products).<sup>2</sup> Due to the fluid nature of intellectual property, it is widely acknowledged that such rights can only be fully protected if recognized under international law, so that intellectual property (hereinafter, “IP”) cannot be stolen or reproduced in one region of the world and then imitated and distributed in another.<sup>3</sup> Since the nineteenth century, an international regime has existed for the protection of intellectual property.<sup>4</sup>

During 2011, there could be no doubt that IPR holders faced significant challenges when attempting to protect their rights abroad. In a world increasingly marked by the forces of globalization and the exodus of people, goods and services across borders, and propelled by international agreements (e.g. the General Agreement on Tariffs and Trade) it has become more necessary than ever to construct a global mindset when attempting to

---

<sup>1</sup> Zhongfa Ma, *Perception of the Objectives of Intellectual Property Legal System, the Essence of a Patent and the Missions of Patent Institution—in Aspect of Low Rate of Patented Technology Commercialization in China*, 2 INT’L J. BUS. & SOC. SCI. 164, 165 (2011), [http://www.ijbssnet.com/journals/Vol\\_2\\_No\\_3\\_%5BSpecial\\_Issue\\_-\\_January\\_2011%5D/19.pdf](http://www.ijbssnet.com/journals/Vol_2_No_3_%5BSpecial_Issue_-_January_2011%5D/19.pdf).

<sup>2</sup> *Overview: the TRIPS Agreement*, WORLD TRADE ORG., [http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) (last visited Oct. 9, 2011).

<sup>3</sup> See, e.g. Elhanan Helpman, *Innovation, Imitation and Intellectual Property Rights*, *ECONOMETRICA*, November 1993, at 1247, <http://faculty.arec.umd.edu/cmcausland/RAKhor/RAKhor%20Task3/Helpman.pdf>.

<sup>4</sup> SIMON NICHOLAS LESTER & BRYAN MERCURIO, *WORLD TRADE LAW: TEXT, MATERIALS AND COMMENTARY* (2008).

enforce IPRs. Today, China presents a particular threat in that regard. Although a member of the World Trade Organization since 2001, this country is one that has historically been reluctant to recognize western norms of the rule of law.<sup>5</sup> Whether on the streets of Shanghai or in popular shopping malls such as the Silk Market in Beijing (秀水街), it is not uncommon to see an array of counterfeited consumer goods ranging from luxury handbags, clothes, shampoo and toothpaste to fake DVDs, notebook computers and electronics, and even prescription medicine such as Tamiflu and Viagra.<sup>6</sup>

On May 25, 2011, the European Union Chamber of Commerce in China released its Business Confidence Survey 2011. Among its conclusions, seventy-three percent (73%) of survey respondents believed China's written intellectual property law to be adequate; while twenty-seven percent (27%) of respondents believed the enforcement of such law to be adequate. Moreover, forty-two percent (42%) of respondents ranked the discretionary enforcement policy of broadly drafted laws and regulations to be the most significant regulatory obstacle to do business in Mainland China; and forty-six percent (46%) of survey respondents concluded that China's regulatory environment is likely to worsen over the next two years for foreign invested enterprises operating in China.<sup>7</sup> This report follows one previously issued on March 2011, by the American Chamber of Commerce (hereinafter, "AmCham") in China, which similarly concluded that seventy percent (70%) of American businesses operating in China believed its IP system is weak and ineffectual. Also, according to twenty-four percent (24%) of survey respondents, IP infringement was reported to be among the top five (5) business challenges; in comparison with an increase from the nineteen percent (19%) as reported the previous year.<sup>8</sup>

Acknowledging to these survey results, multinational businesses based outside of China would appear to have little access to recourse their individual IPRs protection in China. However, the question still remains whether these survey results truly reflect the business operating environment in China or whether they merely reflect the collective business consciousness and perception that, because of the amount and visibility of IP infringement in China, its IP regulatory and enforcement regime is weak.

---

<sup>5</sup> See, e.g., Katherine R. Xin & Jone L. Pearce, *Guanxi: Connections as Substitutes for Formal Institutional Support*, 39 ACAD. OF MGMT. J., 1996, at 1641, [http://iweb.swufe.edu.cn/jiarui/Management\\_Resources/%E4%BC%81%E4%B8%9A%E7%AE%A1%E7%90%86/Guanxi%20Connections%20as%20Substitutes%20for%20Formal%20Institutional%20Support.pdf](http://iweb.swufe.edu.cn/jiarui/Management_Resources/%E4%BC%81%E4%B8%9A%E7%AE%A1%E7%90%86/Guanxi%20Connections%20as%20Substitutes%20for%20Formal%20Institutional%20Support.pdf).

<sup>6</sup> REBECCA ORDISH & ALAN ADCOCK, CHINA INTELLECTUAL PROPERTY - CHALLENGES & SOLUTIONS: AN ESSENTIAL BUSINESS GUIDE (2008).

<sup>7</sup> *Business Confidence Survey 2011*, EUR. CHAMBER OF COMMERCE (May 25, 2011), <http://www.europeanchamber.com.cn/view/media/publications/#bd> (follow European Confidence Survey 2011 "EN" hyperlink).

<sup>8</sup> See *2011 Business Climate Survey*, AM. CHAMBER OF COMMERCE (Mar. 22, 2011), <http://www.amchamchina.org/upload/cmsfile/2011/03/22/efb2ab9d3806269fc343f640cb33baf9.pdf>.

Consequently, the existence of IP theft in China does not necessarily equate with the existence of a weak regulatory regime and legal system for enforcing IPRs. Yet, if these surveys are assumed to be representative of China's IP system, they may have the effect of discouraging business executives from making the decision to operate, invest, or establish operations in China. In addition, once a business is operating in China, these reports may discourage such executives from participating in China's IP system altogether and may serve to justify whatever losses may result therein. From a corporate standpoint, it is imperative that the IP environment in China be analyzed objectively and free from subjective constraints from survey data presented by Chambers of Commerce; organizations that seek to arouse public sentiment in support of pro-business policies irrespective of the existing business operating environment.

## II. CONTEXT/BACKGROUND

### A. Brief History of China's Intellectual Property System

China's modern IP system is a relatively recent creation. Although the concept of IP has been recognized throughout Chinese history from its first imperial dynasty, the *Qin* (秦朝) of 221-206 BC, to its last imperial dynasty, the *Qing* (清朝) of 1644-1911 AD, in reference to copyrights possessed by the imperial court, the underpinnings of a modern IP system were not developed until the early twentieth century. During this time, the *Kuomintang* (国民党) nationalist government developed the first patent law in China.<sup>9</sup> In 1949, when Mao Zedong and the Chinese Communist Party founded the People's Republic of China and exiled the nationalists to Taiwan, the communists sought to "start with a clean slate" and proceeded to "eliminat[e] all previous regulations and laws."<sup>10</sup>

In the three decades that followed, the communist government instituted a "reward system" whereby innovators could "obtain bonuses, medals, certificates, and even honorary degrees" as part of its effort to implement "the transition from private ownership to full national control."<sup>11</sup> The guiding principle was a belief that "a formal legal system for many areas of national life was unnecessary" given that "the economy was centrally controlled" and that "conflicts could be resolved via mediation or administration mechanisms without reference to legal rights and

---

<sup>9</sup> ORDISH & ADCOCK, *supra* note 6; Deli Yang, *The Development of the Intellectual Property in China* (Bradford U. Sch. of Mgmt., Working Papers Series, Working Paper 2, 2002), [http://www.brad.ac.uk/acad/management/external/pdf/workingpapers/Booklet\\_02-24.pdf](http://www.brad.ac.uk/acad/management/external/pdf/workingpapers/Booklet_02-24.pdf).

<sup>10</sup> Yang, *supra* note 9, at 6.

<sup>11</sup> Yang, *supra* note 9, at 6-7.

obligations.”<sup>12</sup> In the three decades which followed, as a result of such policies, scholars have identified several adverse effects, including a lack of incentive for invention and creation, encouragement of a lack of respect for the pursuit of knowledge, the creation of a “paucity of communication” with the outside world in regards to technology and information, and the demonization of intellectuals.<sup>13</sup>

China's economy underwent a significant shift with the death of Mao Zedong in 1976 and the ascendance of Deng Xiaoping to power in 1978. Deng introduced a program known as the “four modernizations,” (四个现代化) in which he sought to modernize four aspects of Chinese economy, which included the modernization of agriculture, industry, science and technology, and national defense.<sup>14</sup> Deng drastically altered economic relations with the outside world when he allowed foreign investment and trade through his adopting of the so-called *Open Door Policy* (门户开放政策) in 1978.<sup>15</sup> Since then, the country has seen massive and rapid enactment of laws and regulations, with particular emphasis on those regulating economic and commercial relations.<sup>16</sup> Today, China ranks among those countries with the greatest number of laws on their books.<sup>17</sup>

With respect to IP, the Chinese government had its first brush with IP issues in the modern age when, in 1979, U.S. President Jimmy Carter refused to sign a bilateral investment treaty focusing on science and technology in the absence of sufficient protection for IP concerns.<sup>18</sup> In the aftermath of these negotiations, it has been said that Chinese officials developed an “*IPR fever*” as they proceeded to commence intensive research on IP in order to encourage local innovation and foreign investment.<sup>19</sup> During the following years, China proceeded to embed itself in the international IPR system and developed the underpinnings of a modern domestic IPR system. Among the most significant markers of these developments are China's decision to join

---

<sup>12</sup> Jingjing Liu, *Overview of the Chinese Legal System*, AMERICAN BAR ASSOCIATION at 1 (May 9, 2010), [http://www2.americanbar.org/calendar/section-of-international-law-2011-spring-meeting/Documents/Thursday/Evolution%20of%20Environmental%20Rule%20of%20Law%20in%20China%20and%20India/Final\\_Overview\\_of\\_Chinese\\_Legal\\_System\\_May\\_9\\_2010%5B1%5D.pdf](http://www2.americanbar.org/calendar/section-of-international-law-2011-spring-meeting/Documents/Thursday/Evolution%20of%20Environmental%20Rule%20of%20Law%20in%20China%20and%20India/Final_Overview_of_Chinese_Legal_System_May_9_2010%5B1%5D.pdf).

<sup>13</sup> Yang, *supra* note 9, at page 7.

<sup>14</sup> 2 TAKASHI KANATSU, *ASIAN POLITICS: TRADITION, TRANSFORMATION AND FUTURE* 128 (2008).

<sup>15</sup> *Id.* at 142.

<sup>16</sup> Liu, *supra* note 12.

<sup>17</sup> Michael Xu, Lecture at the Capital Hotel Beijing in China: Private Equity: Why China Behaves Differently (June 15, 2010).

<sup>18</sup> Deli Yang, *The Development of the Intellectual Property in China* (Bradford U. Sch. Of Mgmt., Working Papers Series, Paper No. 2, 2002), at 8, [http://www.brad.ac.uk/acad/management/external/pdf/workingpapers/Booklet\\_02-24.pdf](http://www.brad.ac.uk/acad/management/external/pdf/workingpapers/Booklet_02-24.pdf); Agreement on Cooperation in Science and Technology (with Exchange of Letters), U.S.-China, Jan. 31, 1979, 1150 U.N.T.S. 18076. <http://treaties.un.org/doc/Publication/UNTS/Volume%201150/v1150.pdf>.

<sup>19</sup> YANG, *supra* note 18, at 8; ORDISH & ADCOCK, *supra* note 6, at 6.

the *Convention for the Establishment of the World Intellectual Property Organization* or WIPO (a specialized agency of the United Nations tasked with promoting IPR and administering IP-related agreements) in 1980,<sup>20</sup> when it ratified the *Paris Convention* (for international harmonization of policies related to trademarks) in 1985<sup>21</sup> and the *Madrid Protocol* (for the international registration of trademarks) in 1989,<sup>22</sup> and finally when it became a signatory country to the *Integrated Circuits Treaty*<sup>23</sup> (for the international harmonization of IP policies related to layout designs of integrated circuits) in 1989.<sup>24</sup> Additionally, when China joined the World Trade Organization in 2001, and adopted all of the ancillary agreements to the *General Agreement on Tariffs and Trade* to include the *Agreement on Trade-Related Aspects of Intellectual Property*, it signaled a willingness of the Chinese government to adopt a host of additional obligations with respect to IPR as required as a condition of membership.<sup>25</sup> On the domestic front, during the Deng administration, China created several administrative agencies to be tasked with IP registration and enforcement, along with attendant regulatory guidelines and rules setting forth how these agencies would operate.<sup>26</sup> The government also restructured the judiciary to provide for a process to advance IP litigation through the courts and promulgated a wide range of IP-related laws, policies and judicial pronouncements.<sup>27</sup> During the span of only three decades, China has developed the underpinnings of a modern legal framework along with the physical infrastructure necessary to protect and enforce IPRs.

---

<sup>20</sup> See Marrakesh Agreement Establishing the World Trade Organization, Apr. 15, 1994, 1867 U.N.T.S. 154; 33 I.L.M. 1144 (1994). [http://www.wto.org/english/docs\\_e/legal\\_e/04-wto.pdf](http://www.wto.org/english/docs_e/legal_e/04-wto.pdf).

<sup>21</sup> See, e.g., Paris Convention for the Protection of Industrial Property, as last revised at the Stockholm Revision Conference, July 14, 1967, 21 U.S.T. 1583; 828 U.N.T.S. 303, [http://www.wipo.int/treaties/en/ip/paris/trtdocs\\_wo020.html](http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html).

<sup>22</sup> Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, June 17, 1989, [http://www.wipo.int/madrid/en/legal\\_texts/trtdocs\\_wo016.html](http://www.wipo.int/madrid/en/legal_texts/trtdocs_wo016.html).

<sup>23</sup> Treaty on Intellectual Property in Respect of Integrated Circuits, May 26, 1989, <http://www.kenyalaw.org/treaties/treaties/1038/Treaty-on-Intellectual-Property-in-Respect-of-Inte>.

<sup>24</sup> Yang, *supra* note 18, at 8; *What is W.I.P.O.*, WORLD INTELL. PROP. ORG., [http://www.wipo.int/about-wipo/en/what\\_is\\_wipo.html](http://www.wipo.int/about-wipo/en/what_is_wipo.html) (last visited Sept. 3, 2011).

<sup>25</sup> Thomas Rumbaugh & Nicolas Blancher, *China: International Trade and WTO Accession* (IMF, Working Paper No. 04/36, Mar. 2004), <http://www.ppl.nl/bibliographies/wto/files/1370.pdf>.

<sup>26</sup> ORDISH & ADCOCK, *supra* note 6, at 7.

<sup>27</sup> Yang, *supra* note 18, at 8; ORDISH & ADCOCK, *supra* note 6, at 7.

## B. Western Perceptions of China's Intellectual Property System Today

As the survey data presented by the Chambers of Commerce indicate, western companies have very low confidence in China's IP system. Yet, further investigation reveals that the vast majority of foreign businesses are not even making an attempt to register and enforce their IP concerns while operating in China. According to the time-series data released by China's State Intellectual Property Office, 1,222,286 patent applications were filed in total during year 2010, of which 1,109,428 (90.76%) were from domestic sources, with only 112,858 (9.23%) from foreign sources.<sup>28</sup> Over the past few years, the percentage of foreign patent applications as a percentage of the total received by the State Intellectual Property Office has been on the decline (15% in 2007; 13.4% in 2008; 10.1% in 2009, and 9.2% in 2010).<sup>29</sup> In comparison with the United States, the percentage of foreign to domestic patent applications received during the same year hovered around 50 percent (50%).<sup>30</sup> Furthermore, according to statistics set forth in an April 2011 White Paper issued by China's Supreme Court, of the IP-related cases closed by Chinese courts in 2010, only 3.28 percent of them involved foreign litigants.<sup>31</sup> Considering the fact that "about one-third of Chinese commerce involves foreign enterprises," it cannot be denied that a large proportion of these companies are leaving themselves out of the Chinese legal process.<sup>32</sup>

As to the report issued by the American Chamber, respondents were asked "[h]ow would you rate China's enforcement of intellectual property rights?"<sup>33</sup> Similarly, although the specific questions asked were not presented in the 2011 European survey, the 2010 survey asked its members to rate the "perceived effectiveness of enforcement of China's IPR laws and regulations."<sup>34</sup> The phrasing of both questions asked were such that business leaders not even attempting to enforce IP rights in China could nonetheless answer the questions based upon their own subjective perceptions.

---

<sup>28</sup> *SIPO Annual Report*, ST. INTELL. PROP. OFF. OF THE P.R.C., <http://english.sipo.gov.cn/laws/annualreports/2010/> (last visited Sept. 3, 2011).

<sup>29</sup> *Id.*

<sup>30</sup> *U.S. Patent Statistics Summary Table, Calendar Years 1963 to 2011, U.S. Patent and Trademark Office* (Apr. 20, 2010), [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm) (last visited Aug. 21, 2010).

<sup>31</sup> Supreme People's Court, *Intellectual Property Protection by Chinese Courts in 2010* (China Pat. Agent, White Paper, 2011), <http://www.cpahklt.com/UploadFiles/20110509082512655.pdf>.

<sup>32</sup> Ewan Bewley, *IP Rights in China –the Giant Awakens*, LEXOLOGY (Aug. 21, 2010), <http://www.lexology.com/library/detail.aspx?g=13078243-f69a-45b7-adcc-e7083af0f6a3>.

<sup>33</sup> *2011 Business Climate Survey*, AM. CHAMBER OF COMMERCE (Mar. 22, 2011), at 15, <http://www.amchamchina.org/businessclimate2011>.

<sup>34</sup> *Business Confidence Survey 2010*, EUR. CHAMBER OF COMMERCE (Jun. 29, 2010), at 15, <http://www.eurochamber.com.cn/view/media/publications/#bd> (follow European Confidence Survey 2010 "EN" hyperlink).

Furthermore, regarding the American report, while only 251 of the Chamber's over 3,000 members responded to the question pertaining to IP rights, the Chamber nonetheless suggested them as indicative of the views of "U.S. business" as a whole.<sup>35</sup> Similarly, regarding the European report, although no data regarding the sample size of the population surveyed was presented in the 2011 report, the 2010 report rendered its conclusions based on a sample size of less than 150, and the results were extrapolated to the "European business community" as a whole.<sup>36</sup> Although it is not inconceivable that representative conclusions be drawn from survey data based on small sample sizes, there is no indication that either Chamber of Commerce has done much to ensure statistical accuracy other than by endeavoring to show trends among their own members by keeping the survey questions consistent from year to year.<sup>37</sup> Given that the responses to the relevant questions were not limited to those companies actually attempting to enforce their IPR through the Chinese system, that survey respondents could conceivably have answered the questions based solely on their perceptions-and the relatively small sample sizes of the data which was collected without verification of statistical accuracy- makes it difficult to conclude that the results reported by the two Chambers of Commerce are truly reflective of the overall business environment in China.

### III. THEORETICAL FRAMEWORK- THEORY OF REASONED ACTION

The Theory of Reasoned Action (TRA) is perhaps best equipped to explain how Western perceptions of the Chinese IP system, lacking in impartiality, contribute to business executives' unwillingness to take part in the existing system; despite evidence that the IP enforcement environment might actually be improving. The TRA has its roots in the field of social psychology, and was first elucidated as a comprehensive theory in 1980 through the work of American social psychologists Martin Fishbein and Icek Ajzen.<sup>38</sup> The TRA seeks to examine the relationships between *beliefs, attitudes, intentions, and behavior*.<sup>39</sup>

---

<sup>35</sup> David Truckety, Lecture at the American Chamber of Commerce: China Briefing: American Chamber of Commerce (June 24, 2010); 2011 Business Climate Survey, *supra* note 33, at 2 & 15.

<sup>36</sup> 2011 Business Climate Survey, *supra* note 33, at 3 & 15.

<sup>37</sup> Truckety, *supra* note 35; 2011 Business Climate Survey, *supra* note 33.

<sup>38</sup> See *e.g.*, ICEK AJZEN & MARTIN FISHBEIN, UNDERSTANDING ATTITUDES AND PREDICTING SOCIAL BEHAVIOR (1980).

<sup>39</sup> *Theory of Planned Behavior/Reasoned Action. Public Relations, Advertising, Marketing and Consumer Behavior*, U. OF TWENTE (Sept. 2004), [http://www.utwente.nl/cw/theorie/enoverzicht/Theory\\_clusters/Public\\_Relations, Advertising, Marketing and Consumer Behavior/theory\\_planned\\_behavior.doc/](http://www.utwente.nl/cw/theorie/enoverzicht/Theory_clusters/Public_Relations,_Advertising,_Marketing_and_Consumer_Behavior/theory_planned_behavior.doc/).



Fishbein and Ajzen start from the premise that people are *rational* and that behavior is “under [one’s] volitional control.”<sup>40</sup> According to this theory, “a person’s behavior is determined by his/her intention to perform the behavior and that this intention is, in turn, a function of his/her attitude toward the behavior and his/her subjective norm.”<sup>41</sup> The TRA posits that intentions are “the best predictor of whether or not a...behavior is performed.”<sup>42</sup> These intentions are best described as “cognitive representation[s] of a person’s readiness to perform a given behavior,” and are presented as the “immediate antecedent of behavior.”<sup>43</sup> Intentions are directly determined by one’s “*attitude* towards the behavior and *subjective norm* associated with the behavior.”<sup>44</sup> Attitude is said to refer to “*a learned pre-disposition to respond in a consistently favorable or unfavorable manner with respect to a given object,*” whereas, subjective norms are said to refer to “a person’s positive or negative value associated with a behavior.”<sup>45</sup> Notably, with respect to subjective norms, individual behavior is said to be dependent upon “the person’s beliefs that specific individuals or groups think he/she should or should not perform the behavior and his/her motivation to comply with the specific referents.”<sup>46</sup>

Some have argued that the model is not suited for use in evaluating decisions in an organizational context based upon “the dynamic and intricate multiphase, multi-person, multi-departmental and multi-objective nature of the decision processes in organization.”<sup>47</sup> However, it has been said that if the framework is applied in situations where “business decisions tend to be the domain of a single individual,” the theory is more convincing.<sup>48</sup> Most frequently, the TRA has been applied to evaluate a range of consumer behaviors.<sup>49</sup> However, as a theory that focuses on individual decision-

---

<sup>40</sup> Julie Denison, *A Summary of Four Major Theories*, FAMILY HEALTH INTERNATIONAL (Mar. 2011), at 10, <http://www.fhi360.org/nr/rdonlyres/ei26vbslpsidmahhxc332vwo3g233xsqw22er3vofqvrjvubwyzclvjcbdgexyzl3msu4mn6xv5j/bccsummaryfourmajortheories.pdf>.

<sup>41</sup> *Theory of Planned Behavior/Reasoned Action. Public Relations, Advertising, Marketing and Consumer Behavior*, *supra* note 39.

<sup>42</sup> D. Montano & D. Kasprzyk, *Theory of Reasoned Action*, AIDS PROJECT LOS ANGELES (2008), [http://www.apla.org/accionmutua/pdf/Theory\\_of\\_Reasoned\\_Action.pdf](http://www.apla.org/accionmutua/pdf/Theory_of_Reasoned_Action.pdf).

<sup>43</sup> *Theory of Planned Behavior/Reasoned Action. Public Relations, Advertising, Marketing and Consumer Behavior*, *supra* note 39.

<sup>44</sup> Montano & Kasprzyk, *supra* note 42, at 1.

<sup>45</sup> MARTIN FISHBEIN & ICEK AJZEN, BELIEF, ATTITUDE, INTENTION, AND BEHAVIOR: AN INTRODUCTION TO THEORY AND RESEARCH 6 (1975); Montano & Kasprzyk, *supra* note 42, at 1.

<sup>46</sup> ICEK AJZEN & MARTIN FISHBEIN, UNDERSTANDING ATTITUDES AND PREDICTING SOCIAL BEHAVIOR 8 (1980).

<sup>47</sup> Gregory Southey, *The Theories of Reasoned Action and Planned Behaviour Applied to Business Decisions: A Selective Annotated Bibliography*, 9 J. NEW BUS. IDEAS & TRENDS, no. 1, 2011 at 43, 44, available at [http://www.jnbit.org/upload/JNBIT\\_Southey\\_2011\\_1.pdf](http://www.jnbit.org/upload/JNBIT_Southey_2011_1.pdf).

<sup>48</sup> *Id.*

<sup>49</sup> *Id.*

making, the TRA can, and has, been applied to senior management officials in the context of their making of business-related decisions.<sup>50</sup> In fact, the model has been applied to several business activities, including financial and investment decision making among individuals;<sup>51</sup> strategic decision making related to environmental preservation and information systems among senior management;<sup>52</sup> and in the accounting profession, to examine choices related to business ethics among executives.<sup>53</sup> Significantly, the TRA has also been applied to analyze Chinese culture and the reasons as to why copyright theft persists among the Chinese despite the existence of a legal regime for enforcing IPR.<sup>54</sup> Although Tian's study focuses on the causes of the persistence of IP theft from the perpetrator's perspective, an argument can be made that foreign business executives similarly come to believe that in China, "copyright piracy is so common that it is hard not to follow the stream" and as such, they refrain from giving due consideration to their enforcement options.<sup>55</sup>

With respect to IP, the most influential members of a corporation are those senior legal staff tasked with responsibility for IP or technology and who often fill roles such as Assistant General Counsel, Vice President, or Chief Patent Counsel.<sup>56</sup> These same individuals are often tasked with making the

---

<sup>50</sup> Mark Yang & Lim Jeon, *The CEO's Decision Making Process Model on Offshore Outsourcing: Using Theory of Reasoned Action (TRA)*, DECISION SCIENCES (2008), <http://www.decision-sciences.org/Proceedings/DSI2008/docs/449-4143.pdf>; Peter P. Mykytyn & David A. Harrison, *The Application of the Theory of Reasoned Action to Senior Management and Strategic Information Systems*, INFO. RESOURCES MGMT. J., Spring 1993, at 15, available at <http://www.irma-international.org/viewtitle/50976>.

<sup>51</sup> Robert East, *Investment Decisions and the Theory of Planned Behaviour*, J. ECON. PSYCH., 1993, at 337.

<sup>52</sup> O. Branzei, T.J. Ursacki-Bryant, I. Vertinsky & W. Zhang, *The Formation of Green Strategies in Chinese Firms: Matching Corporate Environmental Responses and Individual Principles*, STRATEGIC MGMT. J., Sep. 23, 2004, at 1075; M. Cordano & I.H. Frieze, *Pollution Reduction Preferences of U.S. Environmental Managers: Applying Ajzen's Theory of Planned Behavior*, ACAD. MGMT. J., Aug. 2000, at 627; Mykytyn & Harrison, *supra* note 50.

<sup>53</sup> J.M. Stevens, H.K. Steensma, D.A. Harrison & P.L. Cochran, *Symbolic or Substantive Document? The Influence of Ethics Codes on Financial Executives Decisions*, STRAT. MGMT. J., no. 2, 181-195; Gregory Southey, *supra* note 47, [http://www.jnbit.org/upload/JNBIT\\_Southey\\_2011\\_1.pdf](http://www.jnbit.org/upload/JNBIT_Southey_2011_1.pdf).

<sup>54</sup> Dexin Tian, *Chinese Cultural Perceptions of Innovation, Fair Use, and the Public Domain: A Grass-Roots Approach to Studying the U.S.-China Copyright Disputes* (Dec. 2008) (unpublished Ph.D. dissertation, Bowling Green State University) at 104, <http://etd.ohiolink.edu/sendpdf.cgi/Tian%20Dexin.pdf?bgsu1224963994>.

<sup>55</sup> *Id.*

<sup>56</sup> Iain M. Cockburn & Rebecca Henderson, *Survey Results from the 2003 Intellectual Property Owners Association Survey on Strategic Management of Intellectual Property* (Oct. 2005), at A1 (presentation, survey overview and survey results available at [http://www.ipo.org/AM/Template.cfm?Section=Past\\_Meetings\\_and\\_Events&Template=/CM/HTMLDisplay.cfm&ContentID=13628](http://www.ipo.org/AM/Template.cfm?Section=Past_Meetings_and_Events&Template=/CM/HTMLDisplay.cfm&ContentID=13628) following "presentation", "survey overview" and "survey results" hyperlinks).

decision of whether or not to file the organization's IP concerns and whether to enforce those rights through the Chinese system. It is notable that oftentimes, "IP protection strategies used at headquarters [of a foreign corporation] are [often] not transplanted to China for implementation" and that business executives "often choose to send operational staff who have little to no understanding of China, and of the need to invest in IP protection strategies."<sup>57</sup> These decision makers bring with themselves a set of underlying "attitudes," or "personal beliefs about the positive or negative value associated with" participating in China's IP system.<sup>58</sup> As will be shown, many of the beliefs that lead these decision makers to develop the intention to refrain from actively participating in the domestic IP system are the product of their own flawed assumptions about the potential to protect IP in China. Some foreign concerns may choose to avoid doing business in China altogether due to their belief that the transfer of technology is the price of doing business in China. Yet the fact remains that many foreign rights holders are *already* doing business in China and refraining from participating in China's IP system.<sup>59</sup> Based on a belief that participating in China's IP system is not worth the time, cost, and effort, many companies refrain from filing for IPR protection and enforcing their rights through existing judicial and administrative mechanisms; choosing instead to "focus on achieving rising market share value and volume, and on showing management that profitability is just around the corner."<sup>60</sup> This practice only perpetuates the perception that China is weak on IPR enforcement and fuels the belief among foreign concerns that the forfeiture of technology is the price of access to the Chinese market.

With respect to subjective norms, it can be argued that individual business leaders confronted with making IP decisions in China engage in "group think" and find "motivation to comply" with the negative views and expectations of China's IP system as shared by the larger Western business community, who in combination act as "specific referents" in establishing subjective norms.<sup>61</sup> These subjective norms are in part shaped by the reports issued by the American Chamber of Commerce and the European Union Chamber of Commerce. It is important to note that these organizations are tasked with the primary function of lobbying the Chinese government for policy changes that would benefit the business community, and therefore it is not unexpected that they would take a critical view of China's IP system. In fact, the stated mission of the U.S. Chamber of Commerce, which coordinates the operations of its affiliate organizations abroad, including AmCham-China,

---

<sup>57</sup> ORDISH & ADCOCK, *supra* note 6, at 9-14.

<sup>58</sup> Montano & Kasprzyk, *supra* note 42, at 1.

<sup>59</sup> Truckety, *supra* note 35.

<sup>60</sup> ORDISH & ADCOCK, *supra* note 6, at 15.

<sup>61</sup> Denison, *supra* note 40, at 12.

is “to fight for free enterprise before Congress, the White House, regulatory agencies, the courts, the court of public opinion, and governments around the world,”<sup>62</sup> and on its website, the organization boasts that among Washington-based organizations, it “consistently leads the pack on lobbying expenditures.”<sup>63</sup> AmCham-China similarly lists on its website its first objective as being to “enhance the business environment in China.”<sup>64</sup> Yet, too often the views presented in survey data and reports issued by these Chambers of Commerce are relied upon as proof of the operating environment in China, and their conclusions accepted as truth as they become part of the larger business consciousness.

Another contributing factor to subjective norms relating to the Chinese IP system rests with the incessant reporting by the western media of images of open markets selling counterfeited goods, as well as the instances where disgruntled employees have stolen their employer’s trade secrets and sold them to the highest bidder; competitors who have endeavored to undermine others’ patent registrations, or register elements of preexisting products in an effort to claim the technology as their own, and illicit companies claiming to set up branch offices of legitimate corporations in an attempt to profit from the latter’s IP holdings.<sup>65</sup> It is said that while there are instances of these events occurring, this perception is not representative of the available IP enforcement mechanisms and does little more than “provid[e] great fodder to the Chinese spook mill as to why foreign investors should be wary, distrustful, and cautious in China.”<sup>66</sup>

Subjective norms are further shaped by the issuance of reports by politicians-turned-lobbyists, such as the annual *Special 301 Report* issued by Ambassador Ron Kirk, the United States’ Trade Representative to China, castigating Chinese leaders for establishing the *indigenous innovation law* and for failing to maintain adequate protection for American IP holders.<sup>67</sup> Thus, the largely negative views of China’s IP system, shared by individual decision makers in the business community who are called upon to make decisions as to whether to file and enforce their IP concerns through the Chinese system, are a product of their individual *attitudes* and the *subjective norms* which are drawn from the views and expectations of the larger business community; views largely influenced by organizations representing

---

<sup>62</sup> *About the U.S. Chamber of Commerce*, U.S. CHAMBER OF COMMERCE (Sept. 3, 2011), <http://www.uschamber.com/about>.

<sup>63</sup> *Id.*

<sup>64</sup> *Constitution of the American Chamber of Commerce in the People's Republic of China*, AM. CHAMBER OF COMMERCE (Nov. 12, 2008), <http://www.amchamchina.org/article/89>.

<sup>65</sup> ORDISH & ADCOCK, *supra* note 6, at 3.

<sup>66</sup> *Id.* at 3-4.

<sup>67</sup> Ron Kirk, *2010 Special 301 Report*, OFF. OF THE U.S. TRADE REP. (Apr. 30, 2010), 19-27, [http://www.ustr.gov/webfm\\_send/1906](http://www.ustr.gov/webfm_send/1906); DANIEL C. K. CHOW, *THE LEGAL SYSTEM OF THE PEOPLE'S REPUBLIC OF CHINA IN A NUTSHELL* 413 (2009).

business interests, the statements and positions of political leaders, and also general views of Chinese stereotypes.

#### IV. DATA PRESENTATION AND ANALYSIS

##### A. Substantive Law Protecting IP in China

As the following analysis will reflect, China maintains a sophisticated regime for the protection of IPRs. In this section, it will be demonstrated that China maintains a robust portfolio of substantive law that sets forth a conceptual framework, as well as a procedural foundation which provides foreign businesses with a predictable structure for protecting their IP in China.

In China, domestic law and policy is developed and enforced pursuant to the principals of the civil law tradition, according to which statutes are of key importance and court judgments formally have no precedential effect, yet they do often serve as guidance to judges in subsequent cases.<sup>68</sup> There are several sources of written law in China, and they are arranged in a particular hierarchy. At the top of this hierarchy is China's Constitution, followed by laws issued by the National People's Congress and the Standing Committee of the National People's Congress; administrative regulations issued by the State Council; Local People's Congress Regulations issued by local congresses and standing committees of provinces, and finally, governmental rules issued by local governments of provinces as well as ministry rules issued by central-level ministries (commissions and agencies directly under the State Council).<sup>69</sup> The Supreme Court also has the authority to issue judicial interpretations, or regulations (a practice to which it avails itself frequently).<sup>70</sup> It should be noted that China maintains a "single, unified political-legal system (*zhengfa xitong*) as opposed to separate equal branches of government," and as a result, the Chinese government is comprised of "legislative bodies, administrative and regulatory organs, courts, prosecutors, and police with overlapping legislative, judicial, and administrative powers within one system."<sup>71</sup>

##### 1. Patents

In China, a patent may be obtained for a new product or process, or for an improvement to an existing product or process, and a patent right can

---

<sup>68</sup> Liu, *supra* note 12.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> CHOW, *supra* note 67, at 146.

be bought or sold, as similar to other types of property.<sup>72</sup> China operates according to the *first-to-file* principle, as opposed to a *first-to-invent* principle, which renders the timing of patent registration critical.<sup>73</sup> China recognizes three types of patents: (1) *invention patents*, which are issued “for inventions, including products and processes, that are ‘novel’ and not obvious and which have been developed to the point where they can be utilized in industry; (2) *utility model patents*, which are “creations or improvements related to the form construction, or fitting of a product” (but not a process) with lesser technical requirements than an invention patent; and (3) *design patents*, which are issued for “[o]riginal designs relating to the shape or pattern of an object, or to a combination of shape and pattern, or a combination of color and shape or pattern.”<sup>74</sup>

In 2010, the State Office of Intellectual Property (hereinafter, “SIPO”) reported having received 391,177 applications for invention patents, 409,836 applications for utility model patents, and 421,273 applications for design patents, of which 20 percent, 0.6 percent, and 2.8 percent, respectively, were filed by foreign parties.<sup>75</sup> In the same year, the Chinese courts handled 5,785 first-instance civil cases related to patent infringement, which represented a 30.82 percent year-on-year increase.<sup>76</sup>

## 2. Copyrights

Copyrights protects “original work[s] of authorship” to include “books, plays, musical compositions (words and/or music), audio and video records, choreographic works, motion pictures, filmstrips, TV programs, photographs, paintings, drawings, maps, architectural designs, jewelry designs, fabric designs, scale models, prototypes, crafts, computer programs, databases, Web sites, and even oral speeches and lectures.”<sup>77</sup> Pursuant to Chinese law, copyright holders are said to hold a number of exclusive rights with respect to their copyrighted work, including the rights of publication, alteration, protection against distortion, reproduction, leasing, public performance of a mechanical work, exhibition, performance, broadcast, distribution over an information network, adaptation and translation, compilation, and annotation.<sup>78</sup> In China, copyrights are protected pursuant to the 1991 *Copyright Law* and its ancillary *Implementing Regulations*, as

---

<sup>72</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>73</sup> *Id.* at 107; *IPR Toolkit: Patent*, EMBASSY OF THE UNITED STATES, BEIJING, CHINA, <http://beijing.usembassy-china.org.cn/iprpatent.html> (last visited Sept. 3, 2011).

<sup>74</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>75</sup> *SIPO Annual Report*, *supra* note 28.

<sup>76</sup> Supreme People’s Court, *supra* note 31.

<sup>77</sup> ORDISH & ADCOCK, *supra* note 6, at 124.

<sup>78</sup> *IPR Toolkit: Copyright*, EMBASSY OF THE UNITED STATES, BEIJING, CHINA, <http://beijing.usembassy-china.org.cn/copyright.html> (last visited April. 23, 2012).

amended in 2001 to harmonize China's copyright policies with its obligations under the *TRIPS Agreement*.<sup>79</sup> As a result of the 2001 amendment, regulations were strengthened for the protection of public performances, compilation works, and the dissemination of materials through networks and databases.<sup>80</sup> Preliminary injunctions were made available to copyright holders, and statutory damages for copyright infringement were increased to RMB 500,000, or just over U.S. \$78,000.<sup>81</sup> In November 2010, it was announced that in the first half of the year, over 35,000 copyrights had been registered for computer software alone. This represented a 24.02 percent increase as compared to the same period the previous year.<sup>82</sup> In 2010 as a whole, Chinese courts heard 24,719 first-instance civil matters pertaining to copyright infringement, representing a year-on-year increase of 61.54 percent.<sup>83</sup>

### 3. Trademarks

A trademark is "any word, phrase, symbol, design or combination of colors, product configuration, group of letters or colors, or combination of these used by a company to identify its products or services and distinguish them from the products or services of others."<sup>84</sup> Pursuant to Article 8 of the *Trademark Law*, China recognizes four types of trademarks: *product trademarks*, which affixed to and identify goods; *service trademarks*, which are used to identify a service provider (e.g. an airline logo); *certification marks*, which identify the origin of raw materials or of a product's manufacture, and *collective trademarks*, which are used by groups or associations to indicate membership in an organization.<sup>85</sup>

Today, trademarks in China are regulated pursuant to the 1983 *Trademark Law*, as amended in 1993 and 2001 (which added protections for geographic indications in order to comply with WTO standards), along with its implementing guidelines.<sup>86</sup> Pursuant to the most recent amendment, statutory damages for trademark infringement are RMB 500,000, or just above U.S. \$78,000. In 2003, the *Regulations for the Recognition and Protection of Well Known Marks* was promulgated, which added protection for so-called *well-known* trademarks. For these, upon the granting of such

---

<sup>79</sup> ORDISH & ADCOCK, *supra* note 6, at 123.

<sup>80</sup> *Id.* at 124.

<sup>81</sup> *Id.* at 114.

<sup>82</sup> *35,000 Software Registered Copyrights in China*, CHINA INTELLECTUAL PROPERTY, CHINA DAILY (Nov. 25, 2010), [http://ipr.chinadaily.com.cn/2010-11/25/content\\_11610980.htm](http://ipr.chinadaily.com.cn/2010-11/25/content_11610980.htm).

<sup>83</sup> Supreme People's Court, *supra* note 31.

<sup>84</sup> ORDISH & ADCOCK, *supra* note 6, at 114.

<sup>85</sup> *IPR Toolkit: Trademark*, EMBASSY OF THE UNITED STATES, BEIJING, CHINA, <http://www.beijing.usembassy-china.org.cn/iprtrade.html> (last visited Sept. 3, 2012).

<sup>86</sup> ORDISH & ADCOCK, *supra* note 6, at 113.

status by the People's Courts, the Trademark Office, and the Trademark Review and Adjudication Board, formal registration is not required to obtain the right.<sup>87</sup> In April 2011, Tian Lipu, Director of SIPO, announced that China had received over one million trademark applications in 2010, and at the end of the year, the country had attained the position of having more trademark applications and more valid registered trademarks than any other country in the world.<sup>88</sup> In 2010, a total of 2,026 first-instance trademark-related cases were brought before administrative bodies, representing a year-on-year increase of 47.23 percent.<sup>89</sup>

#### 4. Trade Secrets

Trade secrets are defined in Article 10 of the PRC *Anti-Unfair Competition Law* as "technical and business information which is not known to the public, which has economic value and practical utility, and for which the trade secret owner has taken measures to maintain its confidentiality."<sup>90</sup> The most widely cited example of a trade secret is the formula for the manufacture of Coca-Cola, which is kept secret from the public. Although, a trade secret can be any secret recipe, a new invention that has yet to be patented, a marketing strategy, a client list, a manufacturing technique, or a computer algorithm.<sup>91</sup> Trade secrets are considered part of the domain of IP rights because their existence can give a company its competitive advantage vis-à-vis others, and its disclosure to the public could substantially affect operations.<sup>92</sup> A trade secret is not filed or registered with any agency, yet a right to a trade secret can be enforced in court.

Pursuant to China's *Anti-Unfair Competition Law*, a trade secret holder can pursue civil litigation in the People's Courts, or administrative action through the Administration for Industry and Commerce against an infringer, if he or she can prove that: (1) a trade secret exists and that a company has implemented policies and procedures to protect it; (2) that a defendant *knowingly* used such *stolen* information; (3) that the plaintiff has suffered damage; and (4) that the damage was caused by the defendant's actions.<sup>93</sup>

---

<sup>87</sup> *Id.*

<sup>88</sup> *China Has World's Most Registered Trademarks*, CHINA DAILY (Apr. 21, 2011), [http://www.chinadaily.com.cn/business/2011-04/21/content\\_12371841.htm](http://www.chinadaily.com.cn/business/2011-04/21/content_12371841.htm).

<sup>89</sup> Supreme People's Court, *supra* note 31.

<sup>90</sup> J. Benjamin Bai & Guoping Da, *Strategies for Trade Secrets Protection in China*, 9 NW. J. TECH. & INTELL. PROP. 351, 356 (2011), available at <http://scholarlycommons.law.northwestern.edu/njtip/vol9/iss7/1>.

<sup>91</sup> ORDISH & ADCOCK, *supra* note 6, at 127.

<sup>92</sup> *Id.*

<sup>93</sup> *Protect Your Intellectual Property from Infringers in China*, MALONEY & NOVOTNY, LLP (June 15, 2011), <http://www.maloneynovotny.com/news-resources/latestnews/2011/061511.html>; ORDISH & ADCOCK, *supra* note 6, 127.



There is no limitation as to the duration in which a right to a trade secret can exist. Although recent statistics with respect to trade secret disputes brought to Chinese courts are unavailable due to the fact that for reporting purposes they have recently been combined with other unfair competition cases in official statistics, it is nonetheless believed that approximately five-hundred (500) disputes pertaining to trade secrets are commenced each year.<sup>94</sup>

#### B. Specific Procedures for Protecting IPR in China

In addition to its substantive law, China maintains a comprehensive body of procedural laws that dictate the functioning of administrative agencies and the court system. Whether with respect to the process of applying for patent, copyright or trademark protection, or enforcing that protection through administrative procedures through the Chinese bureaucracy or litigation through the court system, a clear and transparent set of procedures exist, applicable to both foreign and domestic parties alike.

##### 1. Registration Procedures

Comprehensive policies are in effect which provide for transparent procedures for the filing of IPRs in China. With respect to patents, inventors or designers can apply for registration for patents by claiming priority pursuant to the *Paris Convention*, to which China is a signatory. After submitting an application, the inventor will be required to register with Chinese authorities, within twelve months (in the case of an invention patent) or six months (in the case of a utility model patent or design patent), in order to preserve their priority date.<sup>95</sup> Additionally, foreign inventors can choose to designate China when filing a Patent Cooperation Treaty (PCT) application, which provides the inventor with an additional thirty months before having to file their application with Chinese authorities.<sup>96</sup> Applications for invention patents must be filed with SIPO, which undertakes a substantial examination of the application and conducts research in China and abroad to determine whether the application satisfies the three prongs of the *test of patentability*, which includes a determination of whether the invention is: (1) *new*; (2) *non-obvious*; and (3) *useful*.<sup>97</sup> If the company holding the IP concern does not maintain an office in China, that company must submit their application to SIPO using an *authorized patent agent*.<sup>98</sup> Utility model patents and design patents are exempted from this examination process, and are

---

<sup>94</sup> Bai & Da, *supra* note 90.

<sup>95</sup> ORDISH & ADCOCK, *supra* note 6, at 109; *IPR Toolkit: Patent*, *supra* note 73.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.* at 110.

<sup>98</sup> *Protect Your Intellectual Property from Infringers in China*, *supra* note 93, at 1.

merely reviewed by SIPO for compliance with procedural formalities.<sup>99</sup> Once the patent is granted, it is officially published in SIPO's journal, and lasts for twenty years (in the case of an invention patent), or ten years (in the case of a utility model patent or design patent).<sup>100</sup>

With respect to trademarks, in the absence of the establishment of a representative office or other foreign-invested enterprise in China, a foreign applicant must file an application through a *designated trademark agent*, of which there are hundreds and which charge a standard fee of 2,000 RMB per application, or just above U.S. \$300.<sup>101</sup> However, recent amendments to the Implementing Regulations of the Trademark Law permit local branches or subsidiaries of foreign companies to register a trademark directly without using a Chinese agent.<sup>102</sup> In turn, the designated trademark agent (or the company directly) files an application with the Trademark Office of the State Administration of Industry and Commerce (SAIC).<sup>103</sup> Once the application is submitted to the Trademark Office, it is reviewed for completeness, and an internal evaluation is conducted to determine whether there exist any similar marks that are already registered.<sup>104</sup> If there are no conflicting findings, then the application is posted to the Trademark Office's *gazette*, where it remains for a period of three months, during which time the public is invited to object the registration of the mark.<sup>105</sup> If an objection is raised, or the application is rejected due to the finding of a conflict with a previously existing mark, parties may appeal through administrative channels, including the Trademark Office and the Trademark Review and Adjudication Board, and further appeals can be made through the courts.<sup>106</sup> In the event no objection is raised, a registration certificate is issued for the mark. Once the certificate is issued, the trademark remains valid for ten years and is renewable indefinitely in ten-year periods.<sup>107</sup>

As opposed to patents and trademarks, *copyrights* do not need to be registered in China in order to exist.<sup>108</sup> As a member of the *Berne Convention*, the works of an author, whether domestic or foreign, are automatically protected in China as long as the author is from a country that is also a member state.<sup>109</sup> However, just as in the United States, a voluntary procedure exists in China which permits authors to register or *record* their works with

---

<sup>99</sup> ORDISH & ADCOCK, *supra* note 6, at 110.

<sup>100</sup> *Id.* at 111.

<sup>101</sup> *Id.* at 116; *IPR Toolkit: Trademark*, *supra* note 85.

<sup>102</sup> *IPR Toolkit: Trademark*, *supra* note 85.

<sup>103</sup> *Id.*

<sup>104</sup> *Id.*

<sup>105</sup> ORDISH & ADCOCK, *supra* note 6, at 118.

<sup>106</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

the National Copyright Administration (NCA), which is said to serve as *good evidence of subsistence*, or as proof that the government has accepted the copyright as valid, and as *ownership* or proof of the author's identity as such.<sup>110</sup> The procedure for voluntary registration of copyrights is embedded in the *Measures for Voluntary Works Registration*, which was adopted by the NCA in 1994 and which provides for a process by which a copyright holder can submit an application to the NCA. After the NCA examines the application, and if the claim is determined to be valid, it will issue a *certificate of copyright* that can serve as documentary evidence of the copyright's validity.<sup>111</sup> Copyrights are protected for the duration of the author's life, plus an additional fifty years. This protection does not extend to photographic, cinematographic, television, or audiovisual work, as well as works created by *corporate* authors; these are protected for a period of fifty years from the date of the work's first publication, as well as ten years from the date of first publication for the typographical arrangement or design of a book or periodical.<sup>112</sup>

## 2. Enforcement Procedures

China maintains a *dual-track approach* to enforcing IPRs, with litigation being one approach, and administrative enforcement being a second available option.<sup>113</sup>

### a. The Judicial Option

Chinese courts are open to parties seeking to enforce their IPR. In fact, in 2009, Chinese courts saw 30,626 civil cases related to IP filed in its first instance courts. In contrast, only 8,261 IP cases were commenced in the same year in U.S. federal district courts.<sup>114</sup> Of those civil cases commenced in Chinese courts, 15,302 pertained to copyright infringement, 4,422 pertained to patent infringement, and 6,906 pertained to trademark infringement. On the other hand, there were 2,018 copyright-related cases; 2,800 patent-related cases, and 3,443 trademark-related cases commenced in U.S. courts during the same year.<sup>115</sup> Since 2005, China has maintained the position of being the world's most litigious country for IP disputes.<sup>116</sup>

In the Chinese legal system, foreign litigants have certain procedural advantages vis-à-vis their Chinese counterparts. One such benefit concerns

---

<sup>110</sup> *Id.* at 125.

<sup>111</sup> *IPR Toolkit: Copyright*, *supra* note 78.

<sup>112</sup> ORDISH & ADCOCK, *supra* note 6, at 126.

<sup>113</sup> *Id.* at 7.

<sup>114</sup> Bai & Da, *supra* note 90.

<sup>115</sup> *Id.*

<sup>116</sup> *Id.*

the structure of the court system itself. In China, there are four levels of courts, including the Supreme People's Court (SPC) at the central government level, the High People's Courts at the provincial level, and the Intermediate and Basic People's courts at the sub-provincial local level.<sup>117</sup> Additionally, there are several types of specialized courts that focus on specific substantive areas of the law, including: military courts, maritime courts, courts of forestry affairs, courts of railway transportation, and courts of agriculture cultivation.<sup>118</sup> Since 1993, specialized *Intellectual Property Tribunals* have been maintained as divisions of courts at the intermediate level or higher.<sup>119</sup> The SPC has original jurisdiction over cases that have major impact upon the country as a whole as well as appellate jurisdiction over lower courts, including specialized courts.<sup>120</sup> There are also over thirty High People's Courts at the provincial level, which have original jurisdiction over cases that have major effects in an entire province and which also hear lower court appeals. About four hundred (400) Intermediate Courts are located in cities and prefectures within provinces which hear appeals from the provincial courts and have original jurisdiction over major criminal cases and civil cases involving foreign parties. Finally, there are over 3,000 Basic Courts at the county or district level, which have original jurisdiction over most criminal, civil, and administrative cases.<sup>121</sup>

Understanding the levels of the court system is significant, in that cases against foreign litigants are automatically commenced in Intermediate Courts.<sup>122</sup> This procedural distinction is said to benefit foreign litigants, as basic courts below the intermediate level have traditionally been staffed by judges who are "poorly educated...demobilized army officers."<sup>123</sup> Based in part upon the structure of the Chinese court system, in December 2010, the Intermediate People's Court in Beijing announced that "the claims of foreign firms were given support or partial support in about 55.2 percent of the 2,691 foreign-related IPR cases handled by the court between 2006 and October 2010."<sup>124</sup> More recently, according to both official and unofficial

---

<sup>117</sup> Liu, *supra* note 12.

<sup>118</sup> *Id.*

<sup>119</sup> *IPR Toolkit: Protecting your Intellectual Property Rights (IPR) in China*, EMBASSY OF THE UNITED STATES, BEIJING, CHINA, [http://beijing.usembassy-china.org.cn/protecting\\_ipr.html](http://beijing.usembassy-china.org.cn/protecting_ipr.html) (last visited Apr. 23, 2012).

<sup>120</sup> Liu, *supra* note 12.

<sup>121</sup> *Id.*

<sup>122</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>123</sup> Donald C. Clarke, *Power and Politics in the Chinese Court System: The Enforcement of Civil Judgments*, 10 COLUM. J. ASIAN L. 1, 10 (Spring 1996), available at <http://docs.law.gwu.edu/facweb/dclarke/pubs/Clarke,%20Power%20and%20Politics%20%28CJAL%29.pdf>.

<sup>124</sup> Cao Yan, *IPR Cases Jump as Awareness Increases*, PEOPLE'S DAILY ONLINE (Dec. 25, 2010), <http://english.peopledaily.com.cn/90001/90776/90882/7242165.html>.

data, the win rate for multinational companies in IP infringement suits in China is "greater than 60% and, in some cities, exceeds 90%."<sup>125</sup>

Another benefit afforded to foreign litigants in Chinese courts is that whereas Chinese defendants have fifteen days in which to file a defense after the service of a civil complaint, foreign parties have thirty days in which to do so.<sup>126</sup> Also, whereas judges are required to issue judgments within six months and issue rulings on appeal within thirty days of the commencement of an action, no such rules apply with respect to cases involving foreign litigants, which provide for the possibility of additional time for foreign parties to collect and submit evidence.<sup>127</sup> Additionally, whereas domestic parties have fifteen days to file a notice of appeal, foreign parties have thirty days; thus providing foreign litigants with additional time in which to prepare their appeals.<sup>128</sup> These policies have the practical effect of providing foreign litigants with greater time to obtain evidence and file the necessary paperwork with the court.

Some have said that another reason why foreign firms refuse to take part in the Chinese IP system is the exorbitant costs associated with filing and enforcing IP rights in China.<sup>129</sup> One basis for these costs is that unlike in the United States, where most day-to-day legal work concentrates on discovery or the process by which opposing counsel share pertinent

---

<sup>125</sup> Benjamin Bai, *China IP Strategies: Don't Go to China Without Them!*, ALLEN & OVERY (July 20, 2011), <http://www.allenoverly.com/AOWeb/binaries/62394.pdf>.

<sup>126</sup> ORDISH & ADCOCK, *supra* note 6; "If a defendant has no domicile in the People's Republic of China, the people's court shall serve a copy of the bill of complaint on the defendant and notify him or her to forward his or her bill of defense within 30 days after he receives the copy of the bill of complaint. Any extension of the term requested by the defendant shall be at the discretion of the people's court." Civil Procedure Law (民事诉讼法), Art. 248 [Law of Civil Procedure of the People's Republic of China], (promulgated by the Order No 44 of the President of the People's Republic of China, Apr. 9, 1991), available at [http://www.wipo.int/wipolex/en/text.jsp?file\\_id=181812](http://www.wipo.int/wipolex/en/text.jsp?file_id=181812) (last visited May 25, 2012) (P.R.C.).

<sup>127</sup> ORDISH & ADCOCK, *supra* note 6; "The period for the trials of civil cases involving foreign element by the people's court shall not be restricted by the provisions of Articles 135 and 159 of this Law." Civil Procedure Law (民事诉讼法), Art. 250, *supra* note 126.

<sup>128</sup> ORDISH & ADCOCK, *supra* note 6; "If any party who has no domicile in the People's Republic of China is dissatisfied with a judgment or order made by a people's court of first instance, the party shall have the right to file an appeal within 30 days from the date the written judgment or order is served. The appellee shall forward his or her bill of defense within 30 days after he or she has received a copy of the appeal petition. If a party is unable to file an appeal or forward a bill of defense within the period of time prescribed by law, and therefore requests an extension of the period, the people's court shall decide to approve or disapprove it." Civil Procedure Law (民事诉讼法), Art. 249, *supra* note 126.

<sup>129</sup> Jay Honig, Lecture at the American Chamber of Commerce: China Briefing: American Chamber of Commerce, (June 25, 2010); David S. Bloch S., George Chan & Euan Taylor, *Chinese Intellectual Property Litigation: Theories and Remedies*, in *DOING BUSINESS IN CHINA*, §10.6 (Michael J. Mosler & Fu Yu, Gen. Eds., last updated 2011), available at [http://www.winston.com/siteFiles/Publications/13-IP%20Litigation%20\\_2\\_.pdf](http://www.winston.com/siteFiles/Publications/13-IP%20Litigation%20_2_.pdf).

information with one another about the case, there is no procedure similar to discovery in China.<sup>130</sup> Instead, counsel must rely on their own research, hire private investigators, or even purchase replicas of the infringing goods at issue.<sup>131</sup> In fact, a prominent business consultant suggested that he would not even *pick up the phone* to provide advice to a foreign company on IP matters unless a consulting fee of over \$2,000 was paid to him upfront.<sup>132</sup> Another basis for the supposedly significant costs of bringing an IP suit is associated with traditional evidentiary rules requiring that only original notarized documents be submitted to the Court for examination.<sup>133</sup> Pursuant to Article 242 of the *Civil Procedure Law*, foreign documents such as powers of attorney, certificates of incorporation, or evidence to demonstrate the existence of a corporate relationship between a parent and subsidiary for use in civil litigation should be both *notarized* and *legalized*.<sup>134</sup> By virtue of the fact that there is no Chinese equivalent of the notion of being held in *contempt* for lying to a court, judges traditionally presume all parties to be lying unless proven otherwise by concrete, original, and written evidence.<sup>135</sup> Finally, concerns are often voiced regarding the rampant corruption facing the Chinese legal system as a whole, and the belief that favorable judicial decisions can be bought by and sold to the highest bidder is widespread.<sup>136</sup> In fact, according to some, on the rare occasion that an injured party chooses to go to Court, the “outcome depends on who offers the judge the largest bribe.”<sup>137</sup>

However, further investigation into these criticisms reveals that the factors supposedly contributing to high costs are exaggerated. Prominent lawyers in the field have noted that while an average IP case from start to finish might cost a company between \$1-2 million in the United States, a similar case brought in China might cost that company \$100,000 or less.<sup>138</sup> On average, it is suggested that the costs of legal services performed in China are often less than one-half of the costs of similar legal services performed in

---

<sup>130</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>131</sup> *Top Ten Trials*, MANAGING INTELLECTUAL PROPERTY (Dec. 1, 2009), <http://www.managingip.com/article/2364977/Top-ten-trials.html> (last visited May 23, 2010).

<sup>132</sup> Honig, *supra* note 129.

<sup>133</sup> Geoffrey Lin, *Introduction to PRC Patent Practice*, LOVELLS (Oct. 2009), available at <http://www.mnbar.org/sections/international-business/Lovells%20Intro%20to%20PRC%20Patent%20practice.pdf>; J. Benjamin Bai, Keith D. Lindenbaum, Yi Qian & Cynthia Ho, *From Infringement to Innovation: Counterfeiting and Enforcement in the BRICs*, 5 N.W. J. TECH. & INTELL. PROP. 525 (2010), available at <http://www.law.northwestern.edu/journals/njtip/v5/n3/9/>.

<sup>134</sup> ORDISH & ADCOCK, *supra* note 6, at 11.

<sup>135</sup> *Id.* at 194.

<sup>136</sup> Xu, *supra* note 17.

<sup>137</sup> *Id.*

<sup>138</sup> Interview with Donghui Wang, Attorney at Lehman, Lee & Xu (June 18, 2010).

the U.S.<sup>139</sup> Furthermore, Chinese practitioners have suggested that the absence of discovery actually serves to the plaintiff's advantage insofar as it limits the amount of evidence that must be shared with the defendant; and in China, it is the defendant that has the burden of proving his or her innocence.<sup>140</sup> It has also been noted that cases progress through the Chinese legal system at a much more rapid rate than similar cases progress in western countries, thus limiting the total cost of legal services in China.<sup>141</sup>

With respect to requirements that original notarized and legalized documents be submitted to Chinese courts, the process of obtaining authenticated documents is said to be *relatively straightforward*. Such process involves the notarization of an original signature by a local notary public in any jurisdiction and subsequent submission to a Chinese Embassy or Consulate, where an officer will inspect the document and affix a *legalization notice*, which provides *prima facie* evidence of its authenticity.<sup>142</sup> Additionally, recent decisions have indicated that judges are increasingly becoming willing to undertake *detailed analysis* and utilize *photographs* instead of requiring the submission of original documentation; thus indicative of the growing *sophistication, thoroughness* and *maturity* of court decision-making practices.<sup>143</sup>

Finally, despite the widespread concerns related to corruption in the Chinese legal system, prominent attorneys in the field suggest that they themselves have never come across a situation in which one party has bribed a judge in an IP-related case.<sup>144</sup> Among the reasons offered for the absence of corruption in IP cases is that many such cases are automatically referred to intermediate courts located outside of rural areas and within which judges are more scrutinized than they might be outside of the cities.<sup>145</sup> Additionally, it is noted that there is a significant amount of prestige associated with being a Chinese judge and these individuals are often reluctant to do anything that might jeopardize their positions, including asking for or accepting a bribe.<sup>146</sup> According to a 2010 survey released by the National Bureau of Statistics, 83.8

---

<sup>139</sup> Interview with Shenjun Chen, Attorney with the Shanghai Pat. & Trademark L. Off. (Jun. 25, 2010).

<sup>140</sup> Wang, *supra* note 138; ORDISH & ADCOCK, *supra* note 6.

<sup>141</sup> Chen, *supra* note 139; Esther H. Lim & Brandon C. Rash, *China Court Swiftly Enforces U.S. Company's IP Rights Against Chinese Company in Motorola v. Guangzhou Weierwei*, FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER, LLP (Mar. 2008), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=ac1bec74-c483-4f26-8202-e603d78626fa>.

<sup>142</sup> ORDISH & ADCOCK, *supra* note 6, at 11.

<sup>143</sup> Gary Zhang, Xiang An, Jinhua Lu, & Guangliang Zhang, *China's IP System Comes of Age*, MANAGING INTELLECTUAL PROPERTY (Apr. 1, 2010), <http://www.managingip.com/Article/2460070/Chinas-IP-system-comes-of-age.html>.

<sup>144</sup> Chen, *supra* note 139; Wang, *supra* note 138.

<sup>145</sup> Chen, *supra* note 139.

<sup>146</sup> *Id.*

percent of Chinese believe corruption among government officials to be *reduced to some extent*.<sup>147</sup>

Although there have been instances of corruption in the judiciary, the Chinese government has endeavored to deter corruption by issuing tough penalties against those judges which do abuse their power. In one representative case that culminated in January 2010, Huang Songyou, the former Vice President of the Supreme People's Court, was sentenced to life imprisonment after being convicted of accepting more than RMB 3.9 million (approximately U.S. \$610,500) in bribes from 2005 through 2008.<sup>148</sup> Going forward, Xiong Xuanguo, the current Vice President of the People's Supreme Court, pledged in December 2010 that "corrupt judges in China will face severe punishments as their practices harm the justice system and interests of the public," a statement which followed the March 2010 deployment of over 27,700 discipline supervisors to oversee judicial practices in almost 3,000 courts nationwide.<sup>149</sup>

#### b. The Administrative Option

Administrative actions are said to be a "popular alternative to civil litigation for IP enforcement in China."<sup>150</sup> With respect to patents, it has been said that utilizing administrative enforcement mechanisms is advantageous in that "investigations may occur soon after filing the complaint, the patent holder may be able to participate in the investigation, and the time required for determining whether infringement has occurred can be shorter than in a court of law."<sup>151</sup> In order to commence an administrative investigation, a patent holder files a written complaint with the local SIPO office having jurisdiction over the location in which the alleged infringement is believed to be occurring, after which point the claim is investigated and when appropriate, remedies are issued in the form of injunctions, cease and desist orders, confiscation of illegal earnings, and fines of up to RMB 50,000, or just below U.S. \$8,000.<sup>152</sup>

With respect to trademarks, the procedure for filing a complaint is slightly different depending upon whether the complainant is Chinese or foreign. Whereas domestic parties can submit their complaints directly to local administrative agencies, foreign parties should "entrust a qualified

---

<sup>147</sup> *Corrupt Chinese Judges to Face Harsh Punishments: SPC Vice President*, PEOPLE'S DAILY ONLINE (Dec. 30, 2010, 8:27 AM), <http://english.peopledaily.com.cn/90001/90776/90785/7246345.html>.

<sup>148</sup> *Id.*

<sup>149</sup> *Id.*

<sup>150</sup> ORDISH & ADCOCK, *supra* note 6, at 13.

<sup>151</sup> *IPR Toolkit: Patent*, EMBASSY OF THE UNITED STATES, BEIJING, CHINA, <http://beijing.usembassy-china.org.cn/iprpatent.html> (last visited Apr. 23, 2012).

<sup>152</sup> *Id.*



trademark or patent agency in China" with this responsibility.<sup>153</sup> If the infringement claimed involves a trademark, a trademark registration certificate must be submitted to the agency, or in the case of foreign parties, proof of the domestication of a foreign trademark through the Trademark Office.<sup>154</sup> While all parties are required to submit samples or photographs of the infringing goods, Chinese parties must submit copies of their business licenses and national identification cards; whereas foreign parties need only submit notarized and legalized powers of attorney.<sup>155</sup>

Pursuant to Article 53 of the Trademark Law, the owner of a registered trademark may seek redress for trademark infringement through the courts or administrative adjudication; and it is said that "when the infringement is serious, the Trademark Office should refer the complaint to the Public Security Bureau for prosecution."<sup>156</sup> Once the Trademark Office receives a complaint from a party holding an IPR right, it delegates the handling of the complaint to the provincial Administration for Industry and Commerce Office holding jurisdiction over the alleged violation. After that, this office investigates the complaint and where appropriate, seizes evidence and issues remedies to include cease and desist orders; confiscation and destruction of trademarks from goods (when the mark can be separated from the goods, the goods are returned to the infringer); confiscation and destruction of counterfeit goods (when the mark cannot be separated from the goods); confiscation of tools and equipment used primarily for the production of the infringing goods and trademark representations; and fines of up to three times the illegal profit, or in cases where this profit cannot be determined, a maximum fine of RMB 100,000 or over U.S. \$15,000.<sup>157</sup> It is noted that actual or compensatory damages (beyond the amount of the illegal profit) are not available through administrative mechanisms, but are available through the courts.<sup>158</sup>

With respect to copyrights, the NCA and the SAIC are empowered with the authority to impose administrative penalties for infringement, with the former agency doing so primarily in cases of national significance and the latter agency doing so in local or regional cases.<sup>159</sup> In order to commence an administrative complaint for copyright infringement, a copyright holder must submit a complaint to the appropriate agency that identifies the individual infringer's name, address and occupation. In the case of a

---

<sup>153</sup> ORDISH & ADCOCK, *supra* note 6, at 13.

<sup>154</sup> *Id.*

<sup>155</sup> *Id.*

<sup>156</sup> *IPR Toolkit: Trademark, supra* note 85.

<sup>157</sup> *Id.*

<sup>158</sup> Taylor Jones, Shen Hong & Anatole Krattiger, *Intellectual Property in China*, IP HANDBOOK OF BEST PRACTICES (Jan. 13, 2010), <http://www.iphandbook.org/handbook/resources/Country/China/>.

<sup>159</sup> *IPR Toolkit: Copyright, supra* note 78.

company, the following must be submitted: (1) the name and position of its legal representative; (2) proper documentation to establish copyright ownership; (3) a sample or copy of the infringed work; (4) a claim for compensation; (5) a factual description of the infringement; and (6) documentary evidence, to include names and addresses of witnesses.<sup>160</sup>

Upon receipt of a complaint, the agencies will determine whether to accept or reject the complaint and upon acceptance, it will designate at least two (2) law enforcement officers to investigate the underlying claims, collect and review evidence, seize the infringing products, and interview witnesses.<sup>161</sup> Upon completion of their investigation, the law enforcement officers will prepare a *Copyright Administrative Penalty Opinion*, which will include a recommended penalty and after its issuance, the alleged infringer will be given the right to respond.<sup>162</sup> If the infringing party fails to respond within three days, the recommended penalty stands, which could include sanctions such as administrative fines, injunctions, revocations of business licenses, confiscation of machinery used to produce the infringing goods, or the referral of the infringing party for criminal prosecution.<sup>163</sup>

Another administrative method available to combat IP infringement is through the General Administration of Customs.<sup>164</sup> Pursuant to the *Implementing Measures of Customs for the Protection of Intellectual Property Rights*, and the subsequent *Regulations of the People's Republic of China on the Customs Protection of Intellectual Property Rights*, rules and guidelines have been promulgated which provide for a role of Customs in IPR enforcement.<sup>165</sup> By registering with the General Administration of Customs in Beijing, an IPR holder can protect his or her rights at the border through the prohibition of the import or export of goods in violation of those rights.<sup>166</sup> Registration of IPR with the General Administration of Customs can occur proactively, prior to the existence of infringement, and once approved, requests can be made to have infringing goods confiscated and destroyed at the border. In addition to the seizure and forfeiture of offending goods, customs authorities "may also impose penalties equivalent to the CIF<sup>167</sup> price (in the case of imports) or FOB<sup>168</sup> price (in the case of exports) of the goods."<sup>169</sup>

---

<sup>160</sup> *Id.*

<sup>161</sup> *Id.*

<sup>162</sup> *Id.*

<sup>163</sup> *Id.*

<sup>164</sup> *IPR Toolkit: Trademark, supra* note 85.

<sup>165</sup> *Id.*

<sup>166</sup> *Id.*

<sup>167</sup> Refers to *cost, insurance and freight* prices.

<sup>168</sup> Refers to *free on board* price.

<sup>169</sup> *IPR Toolkit: Trademark, supra* note 85.

## c. Criminal Enforcement

China is said to be “among the few countries where serious IP infringement may subject the infringer to criminal penalties.”<sup>170</sup> In 2010 alone, Chinese courts prosecuted 3,992 new criminal cases related to IP infringement, representing a year-on-year increase of 9.58 percent.<sup>171</sup> Among these, 1,294 cases involved the allegation of IP-specific crimes such as trademark infringement; 596 involved the production or sale of inferior or counterfeit goods; 2,078 were infringement cases pertaining to illegal business operations, and 24 were other miscellaneous criminal cases which were found to pertain to IP infringement.<sup>172</sup> In 2010, sentences were effectuated in 6,000 separate IP-related criminal cases based on guilty pleas alone.<sup>173</sup> As an example of recent criminal enforcement efforts, last year, a specific coordinated crack down on IP infringement surrounding the Shanghai Expo (上海市博会) led to over sixty (60) arrests at one site.<sup>174</sup>

According to Articles 213, 214 and 215 of the Criminal Law, and judicial interpretations issued in 2004 and 2007 by the Supreme People's Court and the Supreme People's Procuratorate, the court can impose prison sentences of up to three (3) years and fines if the losses incurred are *serious*, which is defined as a loss of more than RMB 500,000, or about U.S. \$78,000.<sup>175</sup> If the loss incurred is considered *exceptionally serious* - defined as a loss of over RMB 2,500,000, or just over U.S. \$390,000- the defendant can be imprisoned for three (3) to seven (7) years in addition to receiving a fine.<sup>176</sup> In the area of trademarks, the Trademark Office is explicitly required to refer a complaint to the Public Security Bureau for criminal investigation when the infringement is considered *serious*, a determination to be made on the basis of the *quantity of the infringing products produced*, the *amount of illegal gain*, or the *prospective injury to public health and safety*.<sup>177</sup> In turn, the Public Security Bureau may recommend prosecution to the People's Procuratorate, or prosecutor.<sup>178</sup> Although a number of sentencing options are available in the courts, approximately three-hundred (300) people are sentenced each year to a term of imprisonment for IP infringement.<sup>179</sup> In

---

<sup>170</sup> Bai & Da, *supra* note 90.

<sup>171</sup> Supreme People's Court, *supra* note 31.

<sup>172</sup> *Id.*

<sup>173</sup> *Id.*

<sup>174</sup> Christopher Carothers, *Scams and Scandal Shadow Expo*, WALL ST. J. (July 8, 2010, 12:26 AM), <http://blogs.wsj.com/chinarealtime/2010/07/08/scams-and-scandal-shadow-expo/>.

<sup>175</sup> *IPR Toolkit: Trademark*, *supra* note 85.

<sup>176</sup> *Id.* at 364-365; Bai, Lindenbaum, Qian, & Ho, *supra* note 133.

<sup>177</sup> *IPR Toolkit: Trademark*, *supra* note 85.

<sup>178</sup> *Id.*

<sup>179</sup> Bai, Lindenbaum, Qian & Ho, *supra* note 133.

comparison, in the United States, it is suggested that no more than ten (10) individuals per year are sentenced to imprisonment for IP-related crimes.<sup>180</sup>

One basis for western criticism is the supposed lack of enforcement by the police against the actions of blatant perpetrators of IP theft.<sup>181</sup> However, the issue is not that these authorities are refusing to enforce criminal sanctions. Rather, the concern is that business representatives are failing to gain an understanding of and learn to work within the Chinese system. In China, enforcing IP-related criminal statutes is not considered to be within the mainstream public interest and police officers traditionally will not act on their own accord to arrest infringers.<sup>182</sup> Instead, law enforcement authorities will only act based upon a complaint submitted by an IPR holder to the proper administrative authorities.<sup>183</sup> Only then will these authorities conduct raids, seize and destroy the offending goods and imprison those responsible for the counterfeit goods to sentences of up to seven (7) years.<sup>184</sup> Yet despite this practice, the blanket allegation that China does not provide for the enforcement of criminal sanctions against perpetrators of IP infringement appears to be without merit.

### C. Note on China's Indigenous Innovation Policy

Many have spoken of the *indigenous innovation policy* as one reason why foreign firms are turning away from filing for IP protection with the Chinese authorities and are using Chinese courts to enforce their rights.<sup>185</sup> This policy refers to a group of regulations seeking to promote domestic innovation by giving preference to domestic innovators in procurement contracts and boosting domestic research and development capabilities.<sup>186</sup> In 2006, the Chinese government launched a comprehensive indigenous innovation plan with the objective of "turn[ing] the Chinese economy into a

---

<sup>180</sup> Bai, Lindenbaum, Qian & Ho, *supra* note 133.

<sup>181</sup> Christopher J. Paun, Comment to Brian Safran, *Challenging the Presumption that China is Weak on Intellectual Property*, OPEN THINK TANK (July 5, 2010), [http://www.atlantic-community.org/index/Open\\_Think\\_Tank\\_Article/Challenging\\_the\\_Presumption\\_that\\_China\\_is\\_Weak\\_on\\_Intellectual\\_Property](http://www.atlantic-community.org/index/Open_Think_Tank_Article/Challenging_the_Presumption_that_China_is_Weak_on_Intellectual_Property).

<sup>182</sup> Wang, *supra* note 138.

<sup>183</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>184</sup> Wang, *supra* note 138; Chen, *supra* note 139; ORDISH & ADCOCK, *supra* note 6.

<sup>185</sup> Loretta Chao, *China Defends Rule on "Indigenous" Tech*, WALL ST. J. (Dec. 15, 2009), <http://www.online.wsj.com/article/SB126079913899790519.html>; *U.S. Companies Criticize Chinese Market Obstacles*, THE CHINA POST, Apr. 2, 2010, <http://www.chinapost.com.tw/business/asia/b-china/2010/04/02/250945/US-companies.htm>.

<sup>186</sup> Juliana Gruenwald, *Firms Urge China to Repeal Indigenous Innovation Policy*, NATIONAL JOURNAL (May 10, 2010), <http://techdailydose.nationaljournal.com/2010/05/firms-urge-china-to-repeal-ind.php>; Kenneth Jarrett, Lecture at East China Normal University, Shanghai, China for course *China's Reemergence: The Changing Political, Economic and Social Landscape: China Briefing: U.S.-China Affairs* (June 21, 2010).

technology powerhouse by 2020 and a global leader by 2050.”<sup>187</sup> Among the most significant regulations were embedded in a landmark document entitled *The National Medium- and Long-Term Plan for the Development of Science and Technology*.<sup>188</sup> In this document, it is explicitly stated that China has set its aim on “enhancing original innovation through co-innovation and re-innovation based on the assimilation of imported technologies,” and has been seen by some technology-intensive companies as a “blueprint for technology theft on a scale the world has never seen before.”<sup>189</sup>

It has been suggested that these *indigenous innovation policies* permit Chinese companies to “buy up foreign ... intellectual property” and “demand technology transfer to China.”<sup>190</sup> Others have noted that the policy “tries to compel transfers of intellectual property rights for key technologies as the price of market access.”<sup>191</sup> However, these statements appear to be embellishments on the truth regarding the operation of the policy. According to Stan Abrams, a prominent practicing Chinese IP attorney, although the *indigenous innovation law* might require a foreign company seeking to enter the procurement market to transfer their IP concerns to a Chinese company, the Chinese company to which they transfer their IP rights can be a subsidiary of the foreign company, and as such, the policy “would not force an American company to give that patent away somehow to an unaffiliated Chinese company.”<sup>192</sup> According to Dan Harris, the foreign companies whose intellectual property he registers “typically have no connection with Chinese companies.”<sup>193</sup> With respect to multinational companies, it has been asserted that “there already is or should be a licen[se] from the parent company to the Chinese subsidiary” if they are operating in China.<sup>194</sup> Therefore, the notion

---

<sup>187</sup> James McGregor, *China's Drive for 'Indigenous Innovation': A Web of Industrial Policies*, U.S. CHAMBER OF COMMERCE (July 28, 2010), at 4, [http://www.uschamber.com/sites/default/files/reports/100728chinareport\\_0.pdf](http://www.uschamber.com/sites/default/files/reports/100728chinareport_0.pdf).

<sup>188</sup> *Id.*

<sup>189</sup> *Id.*

<sup>190</sup> Isabel Hilton, *Is Google Just the Start?*, THE GUARDIAN (July 13, 2010), <http://www.guardian.co.uk/commentisfree/2010/jul/13/google-china-business-with-the-west>.

<sup>191</sup> Robert Holleyman, *How to Repair Our Economic Ties with China*, WASH. POST (July 12, 2010), <http://www.washingtonpost.com/wpdyn/content/article/2010/07/11/AR2010071103037.html>.

<sup>192</sup> Stan Abrams, *BSA Fear Mongering on China Software Piracy- Part. II*, CHINA HEARSAY (July 13, 2010), at 2, <http://www.chinahearsay.com/bsa-fear-mongering-on-china-software-piracy-part-ii/>.

<sup>193</sup> Survey with Dan Harris, Attorney with the Harris & Moure, PLLC and lead writer at China Law Blog (Nov. 7, 2011).

<sup>194</sup> Erica Poon, *US Report on China's Indigenous Innovation Slammed*, MANAGING INTELLECTUAL PROPERTY (Jan. 06, 2011), <http://www.managingip.com/Article/2744131/US-report-on-Chinas-indigenous-innovation-slammed.html> (last visited Sept. 3, 2011).

that China is somehow *stealing* foreign IP through its *indigenous innovation policy* appears to be without merit.<sup>195</sup>

In November 2010, a 196-page report issued by the U.S. International Trade Commission castigated the Chinese government for granting special treatment to domestic innovators in areas including government procurement, technical standards, competition policy, and tax policy.<sup>196</sup> Among the assertions embedded in this report is a claim that a new draft regulation will require products to be “locally researched and developed, including licensing of IP usage rights in China, with the R&D led by a Chinese entity” in order for the innovator to qualify for government procurement contracts.<sup>197</sup> Yet despite this regulation, practitioners have suggested that a foreign parent working with its Chinese wholly owned foreign enterprise (WOFE) or subsidiary to establish a Research & Development (R&D) center would comport with this rule and permit the foreign parent to retain *100% ownership and control* over any IP developed at the Chinese research lab.<sup>198</sup> It should be noted that even prior to the publication of this rule, “there [were] more than 2,000 R&D centers set up by multinational companies in China.”<sup>199</sup> Many of the world’s largest multinational companies, such as Microsoft, Nokia, Motorola, and General Electric, have maintained R&D centers for several years.<sup>200</sup> These corporations have found that R&D centers have served their own interests, as they function to “draw elite local professionals who... contribute tremendously to their business development” and “ai[m] to develop new products tailored to China’s market demands.”<sup>201</sup> According to Louis Brands Savage, an attorney with the Beijing Arbitration Commission, companies often decide to maintain their core research and development operations outside of China and establish R&D centers within China to focus solely on product development and product differentiation specific to the Chinese market.<sup>202</sup> Doing so may not only qualify the foreign company for government procurement contracts pursuant to the *indigenous innovation policy*, it also serves to generate significant goodwill from the Chinese

---

<sup>195</sup> Holleyman, *supra* note 191; Abrams, *supra* note 192.

<sup>196</sup> *China: Intellectual Property Infringement, Indigenous Innovation Policies, and Frameworks for Measuring the Effects on the U.S. Economy*, U.S. INT’L TRADE COMM’N (Nov. 2010), <http://www.usitc.gov/publications/332/pub4199.pdf>.

<sup>197</sup> *Id.* at 105.

<sup>198</sup> Harris, *supra* note 193; Savage, survey respondent, *China’s Intellectual Property System*, Nov. 7, 2011; Fred Greguras, *Intellectual Property Strategy and Best Practices for R&D Services in China*, FENWICK & WEST LLP (May 16, 2007), [http://www.fenwick.com/FenwickDocuments/IP\\_Strategy\\_BP\\_China.pdf](http://www.fenwick.com/FenwickDocuments/IP_Strategy_BP_China.pdf).

<sup>199</sup> Poon, *supra* note 194.

<sup>200</sup> *Transnationals Locate More R&D Centers in China*, CHINA INTERNET INFORMATION CENTER (Mar. 20, 2003), <http://www.china.org.cn/english/scitech/58806.htm>.

<sup>201</sup> *Id.*

<sup>202</sup> Savage, *supra* note 198.

government, while at the same time permitting the foreign company to protect its core intellectual property.<sup>203</sup>

Based on these findings, it appears that many multinational companies would already meet the requirements of the *indigenous innovation policy*. For those that do not, their operations could be adjusted to bring them into compliance without needing to fear that their IPR would disappear. Although the *indigenous innovation policy* might require certain measures be taken to ensure compliance, such as developing a Chinese subsidiary and research center in order to qualify for certain treatment, they do not mandate the transfer of technology. It should also be noted that it is not only China that has sought to promote domestic innovation by giving preference to domestically produced products. In fact, in the United States, the Buy American Act of 1933<sup>204</sup> has required the United States government to give preference to products made within the United States in making government purchases, and the American Recovery and Reinvestment Act of 2009<sup>205</sup> also had a *buy American* provision within it.<sup>206</sup>

## V. INTERNATIONAL LAW AFFECTING IP ENFORCEMENT IN CHINA

### A. World Intellectual Property Organization (WIPO)

China is party to a wide array of international agreements that pertain to IP. Many of these agreements are administered by the World Intellectual Property Organization (WIPO), which China has been a member of since 1980. In fact, according to the WIPO website, currently China is party to fourteen (14) active international treaties which pertain to IP.<sup>207</sup> Among the most significant are the *Patent Cooperation Treaty (PCT)*<sup>208</sup> and the *Madrid Protocol for the Registration of Marks (Madrid Protocol)*.<sup>209</sup>

The *PCT* is significant in that it permits a patent applicant to “seek patent protection for an invention in each of a large number of countries by filing an ‘international’ patent application.”<sup>210</sup> So long as the applicant is a

---

<sup>203</sup> *China: Intellectual Property Infringement, Indigenous Innovation Policies, and Frameworks for Measuring the Effects on the U.S. Economy*, *supra* note 195, at 105; Savage, *supra* note 197.

<sup>204</sup> Buy American Act (BAA) of 1933, 41 U.S.C. §§ 10a-10d.

<sup>205</sup> American Recovery and Reinvestment Act (ARRA) of 2009, Pub. L. 111-5.

<sup>206</sup> Fred Teng, *Indigenous Innovation can Benefit the Whole World*, THE HUFFINGTON POST (May 20, 2010), [http://www.huffingtonpost.com/fred-teng/indigenous-innovation-can\\_b\\_580896.html](http://www.huffingtonpost.com/fred-teng/indigenous-innovation-can_b_580896.html).

<sup>207</sup> Contracting Parties: China, WORLD INTEL. PROP. ORG., [http://www.wipo.int/treaties/en/ShowResults.jsp?country\\_id=38C](http://www.wipo.int/treaties/en/ShowResults.jsp?country_id=38C) (last visited Sept. 3, 2011).

<sup>208</sup> Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645, <http://www.wipo.int/pct/en/texts/pdf/pct.pdf>.

<sup>209</sup> Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, *supra* note 22.

<sup>210</sup> Patent Cooperation Treaty, *supra* note 208, at 1.

national or resident of a state party to the treaty, he or she may submit a single international patent application to his or her national patent office, which will then forward the application to a major patent office which will conduct an *international search* to determine the *patentability* of the application and will prepare an international search report and issue a written opinion.<sup>211</sup> If the applicant chooses to proceed after the issuance of the search report and opinion, the search report is published along with the application by WIPO's International Bureau.<sup>212</sup> Once the search report is published, the patent applicant is granted several advantages, including the granting of an additional eighteen-month period during he or she can apply for streamlined national recognition.<sup>213</sup> The fact that China is party to the PCT provides foreign patent applicants with access to these benefits, as well as the ability to pursue registration of their patents by way of an international review process by an impartial third party.

A second influential WIPO-administered treaty to which China is party is the *Madrid Protocol*. According to this treaty, a trademark holder in one country party to the treaty is permitted to secure trademark protection abroad, simply by "filing one application directly with his own national or regional trademark office."<sup>214</sup> This procedure permits the trademark owner to amend or renew his filing application with "a single procedural step."<sup>215</sup>

Although the *Madrid Protocol* provides IP owners with an efficient system for registering and protecting their IP internationally, there are said to be significant disadvantages with this system when attempting to enforce trademark rights in China. According to business and legal practitioners operating in China, securing trademark protection by way of domestic channels gives the IP rights holder a *much stronger position and better legal standing* in court when compared to those who limit their trademark profile to international filings through WIPO procedures, simply because of *legacy*

---

<sup>211</sup> *Id.*

<sup>212</sup> *Id.*

<sup>213</sup> During this period, in order to "reflect on the desirability of seeking protection in foreign countries, to appoint local patent agents in each foreign country, [and] to prepare the necessary translations and to pay the national fees," the applicant "is assured that, if his international application is in the form prescribed by the PCT, it cannot be rejected on formal grounds by any designated Office during the national phase of the processing of the application" and that "on the basis of the international search report or the written opinion, he can evaluate with reasonable probability the chances of his invention being patented." The applicant is also assured that "the search and examination work of patent offices can be considerably reduced or virtually eliminated thanks to the international search report, the written opinion and where applicable, the international preliminary examination report that accompany the international application." *Id.*

<sup>214</sup> *Madrid System for the International Registration of Marks*, WORLD INTELL. PROP. ORG., <http://www.wipo.int/madrid/en/> (last visited Aug. 21, 2010).

<sup>215</sup> *Id.*



concerns.<sup>216</sup> Additionally, it is noted that reliance on the *Madrid Protocol* has the added disadvantage of making it simple “to apply for international registration in [China] without knowing local standards or searching local marks through early consultancy by local IP attorneys” which as a result, renders it “more difficult to address potential problems later.”<sup>217</sup>

Therefore, even if the statistics concerning the ratio of foreign-to-domestic applicants as cited above were to fail to account for foreign applicants who choose to file for trademark protection through the *Madrid Protocol*, such applicants are nonetheless placing themselves at a competitive disadvantage by refraining from registering for such protection directly with domestic authorities. Accordingly, the instances of filings made by foreign IP holders through WIPO procedures as a substitute for them filing directly with domestic authorities only further demonstrates that Western companies are not taking full advantage of the IP protections that exist for them in China.

#### B. World Trade Organization and the TRIPS Agreement

In 2001, after a long and arduous accession process, the People's Republic of China acceded to the World Trade Organization (WTO). As a WTO member, China avails itself to several benefits, including reduced tariff and non-tariff barriers to trade and the attendant potential for greater access to goods and services and rising income levels among the Chinese people, as well as access to a system of constructive dispute resolution. However, accompanying these benefits are a series of responsibilities.

Although once focused primarily on trade in goods across borders, the global trading system has since undergone a significant expansion in the scope of its purview. The conclusion of the Uruguay Round of trade negotiations in 1994, which paved the way for the creation of the WTO, introduced a series of new multilateral agreements to which all prospective members would be obliged to accede.<sup>218</sup> Among these agreements were those which promote non-discrimination between trading partners; provide for predictability and stability with respect to the openness of the system; discourage unfair practices such as export subsidies and dumping; offer special protections for the benefit of less developed countries; and provide protections for the environment.<sup>219</sup> Notably, IPR were also introduced to the

---

<sup>216</sup> Jason Inch, Lecture at East China Normal University, Shanghai, China for course China's Reemergence: The Changing Political, Economic and Social Landscape: Doing Business in China (June 22, 2010).

<sup>217</sup> Yoshitoshi Tanaka & Nguyen Thi Ngoc Bich, *International Registration of Trademark Under Madrid Protocol & Madrid Agreement*, JAPAN PATENT OFFICE (2008), [http://www.jpo.go.jp/torikumi\\_e/kokusai\\_e/pdf/ipcoop\\_asia-pacific\\_e/vietnam.pdf](http://www.jpo.go.jp/torikumi_e/kokusai_e/pdf/ipcoop_asia-pacific_e/vietnam.pdf).

<sup>218</sup> Marrakesh Agreement, *supra* note 20, Art. II.

<sup>219</sup> *Overview: the TRIPS Agreement*, WORLD TRADE ORG., [http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) (last visited Oct. 9, 2011).

multilateral trading system through the *Agreement on Trade-Related Aspects of Intellectual Property*, commonly known as the *TRIPS Agreement*.<sup>220</sup>

The *TRIPS Agreement* established minimum standards of protection to be provided by each WTO member with respect to copyrights, trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits, and trade secrets, by providing definitions for each category of intellectual property and specifying a common duration of protection.<sup>221</sup> In addition, the agreement set forth standards with respect to domestic procedures and remedies for IPR infringement (to include criminal penalties), made disputes pertaining to IPR subject to the WTO's dispute settlement procedures, and applied certain basic principles of international trade to IPR such as national treatment and most-favored nation treatment.<sup>222</sup>

As a member of the WTO, China assumes the obligations of the *TRIPS Agreement*, which is binding upon the country under international law. Even before becoming a member of the WTO, China realized that it would need to undertake a substantial revision of its domestic law in order to conform to the requirements of the agreement. For example, in October 2001, in preparation for its December 2001 admission to the WTO, China undertook a substantial revision of its *Copyright Law* which enlarged the scope of protection, clarified the rights of performers and producers, added the possibility of interim relief through the seizing of property and the preservation of evidence, and quantified the amount of statutory damages to be awarded.<sup>223</sup> In 2000, an amended *Patent Law* went into effect that extended the scope and duration of patent protection, and extended patent protection over chemical products, pharmaceutical products, foods, beverages and flavorings.<sup>224</sup> A revised *Trademark Law*, also introduced in 2001, broadened the range of symbols meeting the criteria for characterization as a distinctive mark, extended protection over well-known trademarks, and established protections for geographical indications.<sup>225</sup>

---

<sup>220</sup> See JOHN H. JACKSON, *THE WORLD TRADING SYSTEM: LAW AND POLICY OF INTERNATIONAL ECONOMIC RELATION* (2d ed. 2007).

<sup>221</sup> *Overview: the TRIPS Agreement*, *supra* note 219.

<sup>222</sup> *Agreement on Trade-Related Aspects of Intellectual Property Rights*, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299; 33 I.L.M. 1197(1994), available at [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf); *Overview: the TRIPS Agreement*, *supra* note 219.

<sup>223</sup> Kristie Thomas, Ping Wang & Fanshu Yang, *Recent WTO Disputes Involving the Protection and Enforcement of Intellectual Property Rights in China: Legal and Political Analysis*, 24 CHINA POL'Y INST. 1 (2007), <http://www.nottingham.ac.uk/cpi/documents/briefings/briefing-24-china-intellectual-property-rights.pdf>.

<sup>224</sup> *Id.*

<sup>225</sup> *Id.*

These revisions were understood as necessary in order to bring China into compliance with the requirements of the *TRIPS Agreement*.<sup>226</sup>

As outlined in the *Dispute Settlement Understanding*,<sup>227</sup> WTO obligations are enforceable through the organization's dispute settlement mechanism, which "features compulsory jurisdiction and binding decisions" and it is noted that the "[f]ailure to implement dispute settlement rulings may lead to trade sanctions authorized by the WTO."<sup>228</sup> To date, China has been a complainant in eight (8) such cases and a respondent in twenty-three (23) cases.<sup>229</sup>

Of the disputes brought against China as a respondent, only one (1) pertained directly to its system of IPR rights. This case, known as *the China-IPR case*, was commenced by the United States in April 2007, when it requested consultations with China concerning certain aspects of China's IP practices based on its belief that China had failed to implement the requirements of the *TRIPS Agreement* in its domestic law.<sup>230</sup> Specifically, the United States believed that China had failed to provide for the common thresholds required by the *TRIPS Agreement* to subject an infringing party to criminal penalties; requirements concerning the disposal of infringing goods by customs authorities, the scope of criminal enforcement against copyright violators, and China's alleged failure to protect copyrights for works not authorized for distribution within China.<sup>231</sup> After more than two (2) years of consultation and deliberation, a Dispute Settlement Body panel determined that certain aspects of China's *Copyright Law* and its practices with respect to customs failed to comply with the *TRIPS Agreement*.<sup>232</sup> In April 2009, China announced its intention to comply with the findings of the Dispute Settlement Body.<sup>233</sup> By March 2010, the *Standing Committee of the Eleventh National People's Congress* approved amendments to China's *Copyright Law* as well as revisions to its *Regulations for Customs Protection* in direct

---

<sup>226</sup> *Id.*

<sup>227</sup> Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 1869 U.N.T.S. 401, 33 I.L.M. 1226(1994), available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/dsu\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dsu_e.htm).

<sup>228</sup> Julia Ya Qin, Trade, Investment and Beyond: The Impact of WTO Accession on China's Legal System, in CHINA'S LEGAL SYSTEM: NEW DEVELOPMENTS, NEW CHALLENGES 168 (Donald C. Clarke ed., 2008).

<sup>229</sup> *Disputes by Country/Territory*, WORLD TRADE ORG., [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_by\\_country\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm) (last visited Oct. 9, 2011).

<sup>230</sup> Thomas, Wang & Yang, *supra* note 223.

<sup>231</sup> *China - Measures Affecting the Protection and Enforcement of Intellectual Property Rights*, WORLD TRADE ORG., [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds362\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm) (last visited Oct. 9, 2011).

<sup>232</sup> *Id.*

<sup>233</sup> Thomas, Wang & Yang, *supra* note 223.

response to the findings.<sup>234</sup> Although the United States has been reluctant to concede that it shares China's claim that it has implemented the recommendations and rulings of the Dispute Settlement Body in this dispute, it is important to note that no new allegations pertaining to China's non-compliance with its obligations *TRIPS Agreement* have been brought by any member state since this dispute was decided.<sup>235</sup> What is also clear is that by amending its domestic law, China has acknowledged that it can no longer operate a domestic IPR system free from international constraint. Instead, China realizes that its policies and practices must comport with the rules of the international trading system.

#### VI. NOTE ON THE IMPACT OF CONFUCIAN CULTURE ON CHINA'S LEGAL SYSTEM

Some have argued that the Chinese legal system operates in an environment where interpersonal relationships are deemed higher than the law, and that any attempt to understand the Chinese system by looking at case decisions or legal procedures misconstrues the cultural setting.<sup>236</sup> The notion of *guanxi* (关系), or *connections*, is said to permeate all bases of the Chinese society.<sup>237</sup> In fact, intellectual property has "traditionally been considered more a communal right than an individual one."<sup>238</sup> It has been argued that in China, "people tend to operate outside the framework of law" and that as such, "for China to build a social system based on law is impossible."<sup>239</sup> However, even if the law in general and legal matters are in several contexts deemed secondary to personal relationships, the fact is that applications for IP protection and lawsuits seeking to enforce that protection are being filed; however, these filings are primarily not being made by foreigners.

It has also been suggested that basing a study of IP on official data or written laws and policies is insufficient, as these indicators may not give a complete understanding of China's IP system.<sup>240</sup> In fact, when it comes to official data, the Chinese government may be intentionally boosting the statistical data when it comes to domestic IP filings in an attempt to show the

---

<sup>234</sup> *Id.*

<sup>235</sup> *Id.*

<sup>236</sup> Xu, *supra* note 17.

<sup>237</sup> Inch, *supra* note 216.

<sup>238</sup> ORDISH & ADCOCK, *supra* note 6, at vii.

<sup>239</sup> Andrew Field, Lecture at East China Normal University, Shanghai, China for course China's Reemergence: The Changing Political, Economic and Social Landscape: Modern Chinese History (June 21, 2010); Xu, *supra* note 17.

<sup>240</sup> Christian Brauchle, Comment to Brian Safran, *Challenging the Presumption That China Is Weak on Intellectual Property*, OPEN THINK TANK (July 10, 2010), [http://www.atlantic-community.org/index/Open\\_Think\\_Tank\\_Article/Challenging\\_the\\_Presumption\\_that\\_China\\_is\\_Weak\\_on\\_Intellectual\\_Property](http://www.atlantic-community.org/index/Open_Think_Tank_Article/Challenging_the_Presumption_that_China_is_Weak_on_Intellectual_Property) (last visited Aug. 20, 2010).

world that Chinese companies are becoming increasingly innovative. At the same time, there exists a significant discrepancy between policies regarding how they are enacted and how they are enforced in practice.<sup>241</sup> As is stated, China has a greater number of laws on its books than most other countries in the world.<sup>242</sup> Yet, it is not suggested that the mere enactment of a law will inevitably lead to its infallible enforcement throughout the country.<sup>243</sup> It is for these reasons that relying on statistical data provided by government sources or simply comparing written law is insufficient. When it comes to the present study, the findings that western businesses are largely refraining from participating in China's IP system -and that mechanisms are available to them for enforcing IP rights- are those which are borne out not only by written law or government statistics alone, but also by the experiences and insights of leading Chinese academics, practicing attorneys, and business practitioners.

## VII. ANALYZING THE ENFORCEMENT POTENTIAL

### A. Case Law Pertaining to Intellectual Property

Despite common perceptions, intellectual property holders can, in fact, prevail in Chinese courts. For example, the overall win rate for patent owners in China's twenty (20) largest cities range from sixty (60) percent to ninety (90) percent; whereas in the U.S. and Europe, the win rate for patent holders is less than sixty (60) percent.<sup>244</sup> Similarly, it has been said that both official and unofficial data suggest that the overall win rate for multinational companies bringing lawsuits to enforce their IPR in Chinese courts is greater than sixty (60) percent; in some cities it exceeds ninety (90) percent.<sup>245</sup>

Some suggest that even making an attempt to enforce IPR in China is not worth the efforts of western businesses, which often find prevailing in Chinese courts too costly. For example, in a June 2010 meeting, a representative from the American Chamber of Commerce in Shanghai indicated that the average judgment in IP cases issued by Chinese courts is approximately U.S. \$25,000.<sup>246</sup> Yet there have been several notable cases over the past few years that call into question the validity of this *static* figure.

---

<sup>241</sup> Xu, *supra* note 17.

<sup>242</sup> *Id.*

<sup>243</sup> Dan Guttman, Lecture at East China Normal University, Shanghai, China for course China's Reemergence: The Changing Political, Economic and Social Landscape: Chinese Law (June 22, 2010).

<sup>244</sup> Bai, *supra* note 125.

<sup>245</sup> *Id.*

<sup>246</sup> Truckety, *supra* note 35; Honig, *supra* note 129.

In the *Schneider Electric case*,<sup>247</sup> the Chint Group -a Chinese company- was issued a judgment against Schneider Electric (China) Investment Co., Ltd. -a French Company- for approximately U.S. \$48.5 million in response to the latter's infringement of a patent possessed by the former pertaining to a circuit breaker.<sup>248</sup> In the end, the parties settled the suit for approximately U.S. \$22 million.<sup>249</sup> This settlement, reached in 2009, represents the largest settlement agreement ever reached for an IP-related matter in China and evidences the emergence of a modern IP system, whereby parties on both sides are increasingly aware of the potential for the awarding of significant damages if an IP case were to proceed in Court.<sup>250</sup> It has been said that *Schneider Electric* serves as a *wake-up call* to foreign companies who must now consider the ever-growing possibility of Chinese companies going into court to protect their IP rights.<sup>251</sup> Yet, although the IP system may be improving for Chinese companies, one might wonder whether the same changes can be seen with respect to foreign parties in Chinese IP lawsuits.

Several decisions can be pointed to which suggest that the operating environment for foreign businesses within the Chinese legal system is also significantly improving. For example, in *Neoplan v. Zhongtong*, Neoplan Bus GmbH -a German bus manufacturer- sued the Zonda Industrial Group -a Chinese company- for plagiarizing the design of a bus.<sup>252</sup> In January 2009, the Beijing No. 1 Intermediate People's Court awarded the German company a

---

<sup>247</sup> Chint Group v. Schneider Electric (正泰集团诉施耐德电气) [Chint v. Schneider Electric] (Wenzhou City Intermediate People's Court, 2009, rule 10.5); see *Theory and Practice Related to Patent Infringement Damages*, Legal Dept. of China Pat. Agent (H.K.) Ltd., CHINA PAT. AND TRADEMARKS, No. 4, 2009, 103, 103-104, available at [www.cpt.cn/en/show.aspx?n=20100414095517650076](http://www.cpt.cn/en/show.aspx?n=20100414095517650076); see also Robert L. Burns, *Will China Become the World Leader in Patent Litigation?*, LEXISNEXIS CHINA LEGAL REV. (Dec. 2007), available at <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=5baf9931-12cd-4d65-8f27-4644b9010b98>; *Chint v. Schneider, A Milestone of Patent Enforcement* (Apr. 9, 2010), [http://blog.sina.com.cn/s/blog\\_624422bf0100i73v.html](http://blog.sina.com.cn/s/blog_624422bf0100i73v.html)

<sup>248</sup> Benjamin Bai, *Yes, China Does Protect Intellectual Property; Multinational Companies Just Need to Take Better Advantage of Opportunities to Defend Their Patents*, WALL ST. J. (Feb. 11, 2010), [http://online.wsj.com/article/NA\\_WSJ\\_PUB:SB10001424052748704259304575044150656353806.html](http://online.wsj.com/article/NA_WSJ_PUB:SB10001424052748704259304575044150656353806.html); Benjamin Bai, *Ignore at Your Own Peril: Intellectual Property Strategies for China*, CHINA INVESTMENT WEEKLY (Mar. 4, 2010), <http://search.proquest.com/docview/443287656/1358C3D73C46F04E2BA/1?accountid=44825>.

<sup>249</sup> Bewley, *supra* note 32; Bloch, Chan & Taylor, *supra* 129.

<sup>250</sup> Lim & Rash, *supra* note 141.

<sup>251</sup> Bewley, *supra* note 32, at 1.

<sup>252</sup> *Neoplan v. Beijing Zhongtong Xinghua Automobile Selling Co., Ltd., et al.* (教育考试服务中心诉北京市海淀区私立新东方学校) [*Neoplan v. Zhongtong*] (Beijing First Intermediate's People's Court, Jan. 14, 2009, rule 10.5), available at [www.cpt.cn/en/show.aspx?n=20100316134237060977](http://www.cpt.cn/en/show.aspx?n=20100316134237060977); see also *German Auto Firm Wins Lawsuit Over Design Rip-off*, CHINA DAILY (Jan. 22, 2009), [http://www.chinadaily.com.cn/bizchina/200901/22/content\\_7419231.htm](http://www.chinadaily.com.cn/bizchina/200901/22/content_7419231.htm).

judgment of 21 million Yuan, or approximately U.S. \$3.1 million.<sup>253</sup> In this case, the Zonda Automotive Group as well as its subsidiaries Yancheng Zhongwei Passenger Coach Co. Ltd. and Beijing Zhongtong Xinhua Automobile Sales Company were accused of effectively reproducing Neoplan's Starliner model coach bus in designing its own A9 model.<sup>254</sup> The case demonstrated that foreigners may stand to obtain significant compensation for violations of their IPR by participating in China's evolving IP system.<sup>255</sup> In fact, the *Neoplan* verdict represents the largest award ever issued by a Chinese court in favor of a foreign company for patent infringement.<sup>256</sup> In addition to the significant amount of the damages, the case was notable because it indicated that traditional notions of the placement of the burden of proof on the defendant was a principle that could be enforced effectively against Chinese companies.<sup>257</sup> For instance, the Court's decision emphasized that "Zonda could not provide enough evidence to prove that the Zonda A9 is a result of their own research."<sup>258</sup> It should also be noted that *Neoplan* is often cited as exemplifying the supposed exorbitant costs of working within the Chinese legal system, as the plaintiff in this case was required to purchase a model of the infringing bus in order to meet the notoriously high standard of evidence required by the Court.<sup>259</sup> Yet, in the end the expense incurred by purchasing a model of the infringing bus amounted to only a small fraction of the total judgment amount awarded by the Court.<sup>260</sup>

A second case, *Strix Ltd. v. Jiatai*, involved the British kettle manufacturer Strix suing two Chinese manufacturers for infringing a design patent possessed by Strix for the manufacture of safety valves in kettles that automatically shut off when the water inside the kettle boils.<sup>261</sup> Here, the

---

<sup>253</sup> Aoxue Li, *Zonda Loses Case to German Company*, CHINA DAILY (Jan. 22, 2009), [http://www.chinadaily.com.cn/cndy/2009-01/22/content\\_7419004.htm](http://www.chinadaily.com.cn/cndy/2009-01/22/content_7419004.htm); *Top Ten Trials*, *supra* note 131.

<sup>254</sup> Li, *supra* note 253, at 4.

<sup>255</sup> *Top Ten Trials*, *supra* note 131.

<sup>256</sup> *Neoplan v. Beijing Zhongtong Xinghua Automobile Selling Co., Ltd., et al.* (教育考试服务中心诉北京市海淀区私立新东方学校) [*Neoplan v. Zhongtong*] (Beijing First Intermediate's People's Court, Jan. 14, 2009, rule 10.5), *available at* [www.cpt.cn/en/show.aspx?n=20100316134237060977](http://www.cpt.cn/en/show.aspx?n=20100316134237060977); Bai, *supra* note 248.

<sup>257</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>258</sup> Li, *supra* note 253, at 4.

<sup>259</sup> Maya Shmailov, Hava Caner & Ilan Cohn, *Changes in the IP Environment in China*, IP NEWSLETTER (2010), <http://www.rcip.co.il/download/files/ChinalongFINAL.pdf>; *Top Ten Trials*, *supra* note 131.

<sup>260</sup> *Top Ten Trials*, *supra* note 131.

<sup>261</sup> *Strix Ltd. v. Jiatai Electrical Appliance Manufacture Co., Ltd. & Yueqing FaDa Electrical Appliance Co., Ltd.* (施特里克斯有限公司诉嘉泰电器制造有限公司乐清市发达电器有限公司) (Beijing First Intermediate's People's Court, 2010, rule 10.5); *See Chinese Courts Uphold Patents of Strix*, FRANKS & CO (Feb. 25, 2010),

British company was awarded a judgment approximating U.S. \$1.3 million in February 2010.<sup>262</sup> This case was notable not only for the size of the judgment awarded, but also because the Beijing No. 1 Intermediate People's Court froze the defendant's liquid assets -including bank accounts at the commencement of the proceeding- thus helping to ensure that the plaintiffs would be able to collect in the event they were to win the case.<sup>263</sup> *Strix* indicates a willingness on the part of a Chinese court to protect a foreign party from a potential loss in the event the Chinese defendants were to be found liable. Undeniably, *Strix* and the aforementioned measures taken to protect the foreign litigants evidences the gradual emergence of an IP system favorably amenable to supporting foreign complainants in suits levied against domestic infringers.

A third case in which a foreign company was able to attain a significant judgment was *Educational Testing Services vs. Beijing New Oriental School*.<sup>264</sup> In a decision issued in December 2004, a court in Beijing issued judgments amounting to U.S. \$1.2 million in favor of Educational Testing Services, a U.S.-based company which provides test preparation services and materials to prospective graduate students, and against the Beijing New Oriental School, a school which was found responsible for copying test materials and infringing upon trademark and copyright protections possessed by the plaintiff.<sup>265</sup> Although on appeal the judgment with respect to the underlying trademark case was overturned on largely technical grounds, the judgment with respect to copyright infringement was sustained and the school was required to pay ETS approximately U.S. \$450,000.<sup>266</sup>

Another set of cases indicating an improving IP environment for foreign businesses are those cases won in recent years by Microsoft, which are related to the piracy of its operating system software. One such case was *Microsoft v. Tomato Garden*,<sup>267</sup> within which the main perpetrator of the IP theft was an individual named Hong Lei. Mr. Hong was responsible for creating a clone of Windows XP known as the Tomato Garden edition of Windows XP, as well as for overseeing a complex distribution network that

---

<http://www.franksco.com/news/2010/2/chinese-courts-uphold-kettle-patents-of-strix>; See also Bai, *supra* note 248.

<sup>262</sup> Bai, *supra* 248.

<sup>263</sup> Dan Harris, *No IP Enforcement in China. That Cannot Be True*, CHINA LAW BLOG (Feb. 1, 2010), [http://www.chinalawblog.com/2010/02/no\\_ip\\_enforcement\\_in\\_china\\_tha.html](http://www.chinalawblog.com/2010/02/no_ip_enforcement_in_china_tha.html).

<sup>264</sup> *Educational Testing Services v. Beijing Haidian District Private New Oriental School* (教育考试服务中心诉北京市海淀区私立新东方学校) [E.T.S. v. New Oriental School] (Beijing High Court, Dec. 27, 2004, rule 10.5), available at <http://old.chinacourt.org/public/detail.php?id=149380>.

<sup>265</sup> Bloch, Chan & Taylor, *supra* 129.

<sup>266</sup> *Id.*

<sup>267</sup> *Microsoft v. Tomato Garden* (微软诉番茄花园) (Suzhou Intermediate People's Court, 2010, rule 10.5).



was responsible for bringing the operating system to computer users without cost.<sup>268</sup> In August 2009, Mr. Hong and three of his associates were fined approximately one million RMB, or U.S. \$150,000, and sentenced to imprisonment for a term of three-and-a-half years.<sup>269</sup> In another Microsoft case, a Court in Shanghai ordered Dazhong Insurance to pay 2.17 million RMB, or approximately U.S. \$317,900, to Microsoft for allegedly installing and permitting the use of several pirated Microsoft software applications on their employees' computer terminals.<sup>270</sup> Commentators have noted that this case was the first in which Microsoft has "taken a large Chinese company to court over copyright infringement" and represents the *largest sum of damages* Microsoft has been awarded in China to date.<sup>271</sup>

The amount of the damages awarded in the civil judgments noted are undoubtedly less than that which many Westerners might be accustomed to. However, legal practitioners are quick to point out that the system does not discriminate against foreigners and they note that overall, foreign IPR-holders have an even easier time winning IP cases through the Chinese courts than do domestic IPR-holders.<sup>272</sup> It is noted that the basis for the discrepancy in damages is not the national origin of the rights holder, but rather the emphasis the Chinese legal system places on *injunctions*, or court orders that mandate the infringing party to stop their illegal activities and which seek to prevent future infringing conduct.<sup>273</sup> In contrast, in the West, emphasis is placed on the allocation of *punitive damages*, which seek not only to put an end to the illegal activities, but also to punish the wrongdoer for their past conduct.<sup>274</sup> In China, except in the limited area of product liability, punitive damages are not available.<sup>275</sup> Despite these differences in legal culture, the relatively large awards referenced above evidence a system adaptable to change and committed to improvement. Furthermore, they demonstrate the emergence of a system of courts increasingly willing to award unprecedentedly large IP judgments, and more specifically, to award

---

<sup>268</sup> Loretta Chao, *China Defends Rule on "Indigenous" Tech*, WALL ST. J. (Dec. 15, 2009), <http://online.wsj.com/article/SB126079913899790519.html>; Shmailov, Caner & Cohn, *supra* note 259; Bewley, *supra* note 32.

<sup>269</sup> Bai, *supra* note 247; Bewley, *supra* note 32; Kathrin Hille, *Microsoft Wins in Court over China's Pirates*, FIN. TIMES (Apr. 22, 2010), <http://www.ft.com/intl/cms/s/2/66a1b906-4e09-11df-b437-00144feab49a.html#axzz1s4dBATHL>.

<sup>270</sup> Microsoft Co. Ltd. v. Dazhong Insurance Co., Ltd. (微软有限公司诉大众保险股份有限公司有限公司) [Microsoft v. Dazhong Insurance] (New Area People's Court, Apr. 22, 2010, rule 10.5) (China); *See also Microsoft Wins Software Piracy Lawsuit in China*, GLOBAL TIMES (Apr. 23, 2010), <http://business.globaltimes.cn/industries/2010-04/525352.html>.

<sup>271</sup> *Id.* at 1.

<sup>272</sup> Chen, *supra* note 139.

<sup>273</sup> *Id.*

<sup>274</sup> *Id.*

<sup>275</sup> *Id.*

these judgments to foreign companies over the objections of Chinese defendants. Although one might see cases such as those referenced to be exceptions to the rule, the fact is that a similar array of case decisions could not have been cited just a few years ago.<sup>276</sup>

Some have argued that even though the case decisions cited above are noteworthy, they do not necessarily indicate a trend, as the courts granting awards such as these appear primarily to be limited to the major cities of Beijing and Shanghai.<sup>277</sup> It has been suggested that even though major cities have evidenced some notable improvements in enforcement, many of the courts in the more rural areas are trailing behind.<sup>278</sup> One basis for this conclusion is the alleged persistence of local protectionism in China's more remote regions.<sup>279</sup>

Although it is true that the majority of IP disputes have been heard by courts in major population centers, this fact alone does not necessarily prejudice foreign businesses seeking to enforce their IPR in China. First, in major cities, IP disputes are often heard by specialized tribunals dedicated to intellectual property matters.<sup>280</sup> As a result, courts in these areas have more experience and expertise in adjudicating IP disputes.<sup>281</sup> In fact, it has been suggested the judges that adjudicate IP disputes in the major cities are often more educated than similarly situated judges in western countries, as many Chinese judges have degrees in electrical engineering or have other technical and practical backgrounds.<sup>282</sup> Secondly, the court system is designed in such a way that patent cases are automatically adjudicated during the first instance in the Intermediate Level People's Courts (or in the IP division thereof), which are located in the capital city of each province.<sup>283</sup> Therefore, at least with respect to patents, these cases are never actually heard outside of the larger cities.<sup>284</sup> George Chan, a business consultant with the Rouse Consulting Group, has noted that in recent years "IP-related judgments being issued by Courts in second and third tier cities are much more comprehensive and the[ir] analyses of the facts and law are much more detailed."<sup>285</sup> Third, and perhaps most significantly, jurisdictional rules in China permit litigants to bring a case either at the place of infringement, the

---

<sup>276</sup> Wang, *supra* note 138; Chen, *supra* note 139.

<sup>277</sup> Inch, *supra* note 216.

<sup>278</sup> *Id.*

<sup>279</sup> Guttman, *supra* note 243.

<sup>280</sup> Jie Gao, Lecture at the Office of the National Resources Defense Council, Beijing, China: The National Resources Defense Council and the Environmental Law Project (June 17, 2010); Chen, *supra* note 139.

<sup>281</sup> *Id.*

<sup>282</sup> Bai, Lindenbaum, Qian, & Ho, *supra* note 133.

<sup>283</sup> Chen, *supra* note 139.

<sup>284</sup> *Id.*; ORDISH & ADCOCK, *supra* note 6.

<sup>285</sup> Poon, *supra* note 194.

defendant's domicile, or even at the place of distribution.<sup>286</sup> For instance, pursuant to the Chinese Supreme Court's regulatory interpretation entitled *Several Questions on the Application of Law in Trial of Trademark Civil Dispute Cases*, under Article 6, "a registered trademark owner may file a lawsuit in the place (a) where trademark infringement occurred, (b) where infringing products are stored, sealed, or detained, or (c) where the infringer is domiciled" and pursuant to Article 7, a foreign IPR holder may "file its complaint before the Economic or Intellectual Property Division of the People's Intermediate Court nearest to one of these three places."<sup>287</sup> Similar rules exist for patent and copyright infringement.<sup>288</sup> This permits a plaintiff a certain degree of freedom to choose a favorable forum. For example, in the 2007 case of *Motorola v. Guangzhou Weierwei*,<sup>289</sup> an action was brought by Motorola to enforce a design patent on a two-way radio against a Chinese radio manufacturer in Guangdong province.<sup>290</sup> Despite the fact that the alleged incident occurred in Guangdong, Motorola and its legal team were able to take advantage of China's jurisdictional rules and bring the case in Beijing, allowing the company to avoid the possibility of local protectionism in Guangdong province and permitting it to take advantage of the experience of the Beijing courts in dealing with IP matters.<sup>291</sup>

In more recent years, multinational companies have been beneficiaries of China's new practice of utilizing its criminal justice system to enforce IP rights against infringers and deter others from infringing in the first place. For instance, in 2010, fifteen individuals were sentenced for having transported and stored counterfeit cigarettes involving six foreign brands, including Benson and Hedges.<sup>292</sup> The defendants were found guilty of selling counterfeit products and the ringleaders of the operation were both sentenced to fifteen years imprisonment and forced to pay fines of 5 million RMB (approximately U.S. \$782,000) and 2 million RMB (approximately U.S. \$312,778) respectively; the remaining defendants were sentenced to indeterminate prison sentences of one (1) year and six (6) months to ten (10) years, with fines of up to RMB 700,000 (approximately U.S. \$109,500).<sup>293</sup>

In another significant criminal matter involving a music and internet-related copyright dispute, Wang Jiahao was found by the Changshu People's

---

<sup>286</sup> Chen, *supra* note 139; ORDISH & ADCOCK, *supra* note 6.

<sup>287</sup> *IPR Toolkit: Trademark*, *supra* note 85.

<sup>288</sup> ORDISH & ADCOCK, *supra* note 6.

<sup>289</sup> *Motorola v. Guangzhou Weierwei Electronic Science and Technology Co.* (摩托罗拉诉广州威而威电子科技) (Beijing First Intermediate People's Court, Dec. 2007, rule 10.5).

<sup>290</sup> Lim & Rash, *supra* note 141.

<sup>291</sup> *Id.*

<sup>292</sup> *2010 IP Cases*, CHINA INTELL. PROP. MAG. (Apr. 27, 2011), <http://www.chinaipmagazine.com/en/journal-show.asp?id=680>.

<sup>293</sup> *Id.*

Court to have violated copyrights possessed by Universal Music Ltd. and Warner Music Taiwan Ltd., after it was alleged that he had created an online music network permitting anonymous internet users to obtain trial subscriptions and listen to music without charge while Mr. Wang collected fees totaling over RMB 1.28 million (approximately U.S. \$200,177) from advertisers.<sup>294</sup> In 2010, Mr. Wang was found guilty of copyright infringement and was sentenced to six (6) months in prison with, a one-year suspension, and fined 15,000 RMB (approximately U.S. \$2,350), in addition to being required to return all of the proceeds obtained through his criminal activity.<sup>295</sup>

Also in 2010, defendant Liu Zhaolong was convicted and sentenced to four (4) years imprisonment and fined 150,000 RMB (approximately U.S. \$23,500) for counterfeiting foreign-brand liquor.<sup>296</sup> Mr. Liu had been found to be producing Chivas Regal liquors; products which were protected by a well-known trademark possessed by Pernod Ricard, an international wine and spirits group.<sup>297</sup> In part stemming from Mr. Liu's initial arrest in 2009, a partnership between the International Federation of Spirit Producers and officials at the State Administration of Industry and Commerce has led to the investigation of twenty-two (22) large-scale cases of counterfeited spirits, and the conviction of seventy-one (71) defendants; eight (8) of whom were sentenced to over four (4) years imprisonment, with the most severe sentence amounting to six-and-a-half years of imprisonment.<sup>298</sup> In addition to prison sentences, the defendants were issued fines collectively totaling over 5 million RMB (approximately U.S. \$782,000).<sup>299</sup>

#### B. The Challenges Facing the Western Multinational Corporation Operating in China

The purpose of this paper is not to suggest that China's IP system is perfect. There are, of course, instances where IP rights have been violated either explicitly or implicitly, and other cases where IP has been outright stolen. As an example, it is hard to conclude that Chinese government-owned aerospace manufacturer Commercial Aircraft Corporation of China, Ltd. (COMAC), which has developed plans to design and build large commercial aircraft, has developed such plans based on its own technological discoveries without consulting blueprints derived from the factories Boeing has set up in

---

<sup>294</sup> *Id.*

<sup>295</sup> *Id.*

<sup>296</sup> Ti Zhuang, *Court Case: Spirited Fight Against Liquor Counterfeits*, CHINA DAILY (June 29, 2011), [http://www.chinadaily.com.cn/cndy/2011-06/29/content\\_12797594.htm](http://www.chinadaily.com.cn/cndy/2011-06/29/content_12797594.htm).

<sup>297</sup> *Id.*

<sup>298</sup> *Id.*

<sup>299</sup> *Id.*

China to build key aircraft components.<sup>300</sup> It also cannot be argued that there are not instances where companies have successfully registered the intellectual property of others as their own and asserted their rights in Chinese courts to *junk patents*.<sup>301</sup> Additionally, despite anecdotal evidence suggesting that in recent years the win rate for multinational companies bringing their IP cases to court exceeds sixty (60) percent, with the win rate in some cities exceeding ninety (90) percent, China can still certainly do more to ensure the consistent application of its laws throughout the country.<sup>302</sup>

Yet China's IP system is a work in progress. Given the fact that the first modern Chinese patent law was devised only in 1984, China's IP system has come quite a long way in a relatively short amount of time.<sup>303</sup> Unlike China, western countries are said to "have a century or more of IP experience under their belts."<sup>304</sup> Legal practitioners note that, although China's IP system might be weaker than those in the United States and Western Europe, it is still stronger than those of India and even South Korea and Taiwan.<sup>305</sup> Yet despite its flaws, the aforementioned analysis has demonstrated that there are significant untapped resources available to foreign businesses seeking to protect and enforce their IPR's in China, most especially for those companies that possess intellectual property and already operate in China and refrain from participating in China's IP system.

### C. Best Practices and Winning Strategies among Multinational Corporations in China

Multinational companies which decide to set up operations in China would be well-advised to develop an IP strategy specific to their company's operations designed to ensure that their rights are fully protected in China. This means filing for IP protection, consulting with local counsel and business consultants, and submitting to available administrative, judicial and criminal procedures available for enforcing those rights. Companies with IP concerns should seek to obtain a *robust portfolio* of patents, copyrights and trademarks before operating in China.<sup>306</sup> By virtue of the fact that domestic filings are preferred by Chinese courts over international filings made

---

<sup>300</sup> Brett Davis, Don Dennis, Tras Obsuwan, Kyungwhan Park & Ryan Wegner, *The ABC's of Aviation: Airbus, Boeing, China*, FORBES INDIA MAG. (Nov. 3, 2011), <http://business.in.com/printcontent/29372>.

<sup>301</sup> *American Business in China White Paper*, AM. CHAMBER OF COM.- CHINA (Apr. 26, 2011), at 72, <http://amchamchina.org/whitepaper2011>.

<sup>302</sup> *Id.*; Bai, *supra* note 248.

<sup>303</sup> Chen, *supra* note 139.

<sup>304</sup> ORDISH & ADCOCK, *supra* note 6, at 302.

<sup>305</sup> Wang, *supra* note 138; Chen, *supra* note 139.

<sup>306</sup> Lim & Rash, *supra* note 141.

through WIPO, business executives should seek to file their IP concerns directly with the proper domestic administrative authorities.<sup>307</sup>

Many western businesses operating in China to date have chosen to focus on *achieving rising market share value and volume* without investing in IP protection.<sup>308</sup> Yet, as demonstrated by the significant award issued by the Court in *Neoplan*,<sup>309</sup> foreign parties to IP lawsuits willing to make the initial investments into evidence-gathering as required to meet China's unique evidentiary requirements and to familiarize themselves with Chinese legal procedures can obtain access to redress when their rights are violated.<sup>310</sup> It is noted that "IP protection strategies used at headquarters are [often] not transplanted to China for implementation" and that business executives "often choose to send operational staff who have little to no understanding of China, and of the need to invest in IP protection strategies."<sup>311</sup> Businesses which seek to take full advantage of China's IP system therefore must be willing to "send technical or IP professionals to oversee their proprietary property" and assist them in navigating the system.<sup>312</sup> Multinational companies must not only be willing to sue to enforce their IP rights, but must choose a team capable of providing the business with an "in-depth understanding of the Chinese judicial system and relevant legal doctrines and an ability to maneuver through the intricacies of law and politics."<sup>313</sup>

Some have suggested that the filing of IP with domestic authorities and pursuing claims through existing enforcement mechanisms are a necessary but not sufficient method for protecting IP rights in China. In fact, the changing IP environment in China has forced multinational companies to rethink how they view, value, and protect their IP. Moreover, in addition to protecting their IP through legal mechanisms, companies are increasingly seeking to "holistically cultivat[e] and retai[n] value through higher-level business strategies" by assuming a *value management approach* to protecting IP.<sup>314</sup>

Given the focus of Chinese companies on developing derivative products based on pre-existing patents, and mass producing them for

---

<sup>307</sup> Inch, *supra* note 216.

<sup>308</sup> ORDISH & ADCOCK, *supra* note 6, at 15.

<sup>309</sup> *Neoplan v. Beijing Zhongtong Xinghua Automobile Selling Co., Ltd., et al.* (教育考试服务中心诉北京市海淀区私立新东方学校) [*Neoplan v. Zhongtong*] (Beijing First Intermediate's People's Court, Jan. 14, 2009, rule 10.5), available at [www.cpt.cn/en/show.aspx?n=20100316134237060977](http://www.cpt.cn/en/show.aspx?n=20100316134237060977).

<sup>310</sup> *Top Ten Trials*, *supra* note 131.

<sup>311</sup> ORDISH & ADCOCK, *supra* note 6, at 9 & 14.

<sup>312</sup> *Id.* at 9.

<sup>313</sup> Bai, *supra* note 248, at 1.

<sup>314</sup> *Redefining Intellectual Property Value: The Case of China*, PRICEWATERHOUSECOOPERS: TECHNOLOGY AND INNOVATION CENTER (2005), [http://www.pwc.com/en\\_US/us/technology-innovation-center/assets/ipr-web\\_x.pdf](http://www.pwc.com/en_US/us/technology-innovation-center/assets/ipr-web_x.pdf).

consumption by the Chinese market, western companies seeking to compete in China are advised to “align their IP strategy with overall business objectives” and “recognize that IP value can be preserved not only in goods and manufacturing itself, but with related channel and distribution controls, service adjuncts, and other non-merchandise activities.”<sup>315</sup> As part of this process, it is recommended that manufacturing remain flexible through “rapid versioning, agility in increasing or reducing capacity of product lines, and supply chain responsiveness” in order to “introduce new technology more quickly than the competition” and “maximize the value of new features and functions.”<sup>316</sup> In addition to rapid versioning, companies are advised to set aggressive, competitive prices and market global product launches in order to make it difficult for less capable manufacturers to keep pace and add value to product lines through brand attributes and services.<sup>317</sup> Also, businesses are advised to “[c]onsider merger and acquisition (M&A) and partnering activities” through “deeper, more definitive and exclusive equity relationships along the supply chain” in order to “align the interests of participants around protecting core IP value.”<sup>318</sup> With respect to communications with stakeholders, companies are advised to “publish [its] successes in enforcing IP rights, as well as publically naming and shaming perpetrators.”<sup>319</sup>

When it comes to the relationship between company executives and the Chinese community, it is recommended that companies should “[e]ncourage positive legal development in China by engaging at various levels with government, business and academic leaders.”<sup>320</sup> As part of this practice, companies are advised to “[c]ontinue engagement with the related central government agencies to improve their knowledge and law enforcement capacity-building exercises,” and “align interests with local government parties” while “proactively buil[ding] strong relationships with the bodies responsible for IP protection and enforcement, including customs, at a local or provincial level” should the company need to enforce its rights in the future.<sup>321</sup> Companies are also advised to “engage in local standards debates and elevating protection initiatives in international standards groups.”<sup>322</sup> When an industry is faced with IP infringement, competitors have been known to collaborate, exchange information and “jointly fund or drive

---

<sup>315</sup> *Id.* at 6.

<sup>316</sup> *Id.*

<sup>317</sup> *Id.*

<sup>318</sup> *Id.*

<sup>319</sup> Dr. Heinrich v. Pierer, President & C.E.O. at Siemens AG, Press Conference: Leveraging IP as Part of Your Corporate China Business Strategy (Jan. 6, 2005) (transcript *available at* <http://ebookbrowse.com/gdoc.php?id=279821066&url=9c1af86b7988d72710af3d64f19c00ed>).

<sup>320</sup> *Redefining Intellectual Property Value: The Case of China*, *supra* note 314, at 6.

<sup>321</sup> *Id.*; Pierer, *supra* note 319.

<sup>322</sup> *Redefining Intellectual Property Value: The Case of China*, *supra* note 314, at 6.

investment protection measures, or even create an industry pressure group to convince the authorities to be more active in protecting IP rights” such as the Pharma Association of China.<sup>323</sup> Companies are also advised to “organize government education efforts that stress and quantify the benefits of IP protection for China’s industrial development,” “encourage local IP holders to support the cause of IP preservation,” and “nurture alliances with researchers, academics, and policy advisors [in order to help] them expand their knowledge and influence.”<sup>324</sup> These multifaceted strategies permit a company to leverage best practices and assert their IP rights despite the challenges associated with operating a business in China.

Yet as it has been shown, company executives that succumb to their fears and leave themselves out of China’s IP system altogether are left at a competitive disadvantage. As famously suggested by Jiang Zhipei, the Chief Justice of the Intellectual Property Rights Tribunal of the Chinese Supreme People’s Court: “[f]oreign companies should take their complaints to courts rather than to the newspapers or their politicians” and “[f]oreign companies should complain less and act more.”<sup>325</sup> Given the improvements made to China’s IP system over the past several years, Jiang’s words encapsulate the best advice that can be given to a western company with IP concerns seeking to protect its intellectual property while operating in China.

## VIII. CONCLUSION

### A. The Implications for the Western Multinational Corporation

China does not have a perfect IP system. Yet, as it has been shown, its weakness is in part due to multinational businesses, which “in their rush to enter the world’s largest market, [they often fail] to include intellectual property in their entry strategies.”<sup>326</sup> As it has been shown, *group think* has prevailed in discussions surrounding China’s IP system and this thinking has ultimately led top-level decision makers to refrain from critically analyzing the bases for their subjective perceptions and to choose to abstain from participating in China’s IP system. Yet the aforementioned analysis has demonstrated that the Chinese IP system, despite its complexities, is one from which foreign parties can increasingly stand to benefit if only they chose to take part in it.

It is important to note that organizations such as the American Chamber of Commerce and the European Chamber of Commerce are, at their heart, lobbying organizations whose primary purpose is to lobby for policies

---

<sup>323</sup> Pierer, *supra* note 319, at 3.

<sup>324</sup> *Redefining Intellectual Property Value: The Case of China*, *supra* note 313, at 6.

<sup>325</sup> ORDISH & ADCOCK, *supra* note 6, at 182.

<sup>326</sup> *Id.* at 9.



that promote and protect the interests of a particular constituency.<sup>327</sup> This is most readily apparent in publications such as AmCham's 2011 White Paper entitled *American Business in China*, which presents an imbalanced view of China's IP system, providing only very general praise for improvements made, and offering much more specific and detailed criticisms of China's IP system complete with a slew of complaints aimed at encouraging Chinese leaders to transform almost every aspect of the Chinese socio-legal system.<sup>328</sup> Rather than continuing to channel their collective energies into organizations such as these in an attempt to change Chinese policy, business executives may find it more fruitful to learn to work within the existing system.

#### B. Policy Recommendations

The foregoing analysis suggests that decision making by western business leaders doing business in China, faced with having to choose whether to build a comprehensive portfolio of IP rights and enforce those rights through the Chinese system upon infringement is reflective of the Theory of Reasoned Action. Based on a combination of personal attitudes and subjective norms within the business community, many corporate executives with operations in China have largely chosen to avoid partaking in China's IP system. Yet this study has demonstrated that these attitudes and norms are largely based on a series of misguided and flawed assumptions.

It has been suggested that there is a widespread belief that China's IP system is weak. However, the aforementioned analysis shows that there is a robust system for protecting intellectual property in China. From the specific step-by-step guidance Chinese law provides to companies seeking to register intellectual property with domestic authorities, to the several avenues available to companies seeking to enforce those rights, China's IP system has made significant strides in its short lifespan. A series of recent case decisions demonstrate that Chinese courts have shown an increasing willingness in recent years to rule in favor of non-Chinese IP owners and assess significant damages in IP-related cases; none of which could have been cited just a few years ago. Despite these decisions, some have noted that improvements are limited to major cities and that IP enforcement in rural areas remains weak. Conversely, it has been shown that China maintains relatively loose jurisdictional rules that permit IP rights holders to commence lawsuits in these major cities without much impediment. Some also suggest that Chinese socio-legal culture is such that personal relationships trump legal relationships, discounting the relevance of legal processes and court decisions. Notwithstanding the cultural divergences between China and the

---

<sup>327</sup> Wang, *supra* note 138; Truckety, *supra* note 35.

<sup>328</sup> *American Business in China White Paper*, *supra* note 301.

West, many Chinese businesses are participating in the legal process by filing for IP protection as well as seeking to enforce their rights through Chinese courts, whereas foreigners are largely leaving themselves out of the process.

Some have questioned the *indigenous innovation policy* and the perceived risk of IP thievery by China, based on the requirement that IP be transferred to a Chinese entity before a foreign business can qualify for Chinese government procurement contracts. However, the *indigenous innovation policy* does not prohibit a foreign firm from establishing a business relationship with a Chinese subsidiary and transferring the IP to it in satisfaction of this requirement; thus providing a method by which to circumvent the supposed obligation that foreign IP be transferred to a Chinese entity totally unrelated to the foreign IP holder. Additionally, while the *indigenous innovation law* may require a foreign company to maintain a domestic R&D center in order to qualify for procurement contracts, companies have shown that it is possible to maintain such R&D centers without risking the appropriation of their IP by Chinese authorities. Evidence has also shown that concern regarding the costs of enforcing IP rights in China is largely misguided and that such costs are often significantly less than similar expenses associated with enforcing such rights in western countries. Furthermore, despite the allegation that China fails to enforce criminal sanctions against those responsible for IP infringement, evidence suggests that China does in fact enforce such sanctions, subject to its own unique complaint filing requirements.

Some have also taken issue with the statistics that indicate limited foreign participation in China's domestic IP system, viewing them as an insufficient indicator to conclude that western businesses are not attempting to enforce their rights through the Chinese system given the existence of the WIPO's international filing system. Yet, as noted, practitioners in the field assert that IP owners that fail to file directly with Chinese authorities are left at a competitive disadvantage upon attempting to enforce their rights in Chinese courts. Some have also noted that any effort to analyze China's IP system based on government statistics or written statutes fails to encompass the true operation of China's legal system. For this very reason, this study has focused on the views and experiences of those business and legal practitioners with direct expertise in the field, as opposed to a solely textual analysis or comparison of existing Chinese law. Finally, despite concerns regarding the inconsistent application of Chinese law, this study suggests that ample opportunities exist for foreigners to enforce their IPR in China. Given the relative infancy of China's IP system, and the fast-paced improvements made to that system over the past few years, there can be no doubt that China's IP system will provide an even more consistent framework for doing business in China as the years progress.

As it has been presented, the conclusions reached by the American Chamber of Commerce and the European Chamber of Commerce fail to accurately depict the opportunities available to western businesses for enforcing their IPR in China in 2012. Before complaining to their respective Chambers of Commerce, western businessmen would be well-advised to work within the existing system. This means filing for IP protection, seeking representation by local counsel and patent agents, and putting forth a salient effort to utilize existing administrative processes and the court system to enforce their rights. In the end, they may find themselves surprised by the results.