In presenting this thesis in partial fulfillment of the requirements for an advanced degree at the University of British Columbia, I agree that the Library shall make it freely available for reference and study. I further agree that permission for extensive copying of this thesis for scholarly purposes may be granted by the head of my department or by his or her representatives. It is understood that copying or publication of this thesis for financial gain shall not be allowed without my written permission.

Department of Faculty of Law
The University of British Columbia
Vancouver, Canada

Date March 24, 1998
Abstract

With the conclusion of the GATT Uruguay Round in 1994, a new set of international intellectual property rules has been established: the Trade Related Intellectual Property Rights, including Trade in Counterfeit Goods ("TRIPS Agreement"). The TRIPS Agreement represents a new level of co-operation and internationalization of intellectual property rights (IPR) protection worldwide. It surpasses the pre-existing international IPR protection standards set out in the Paris Convention in terms of both minimum standards and enforcement measures. Thus, the TRIPS Agreement represents a culmination of the effort of each member state and non-member state in bringing their IPR standards in lines with the new international standards.

This thesis examines the internationalization of Chinese patent law and practice in the context of the TRIPS Agreement by tracing the historical development of China’s patent regulations and practices from the early beginnings of the patent idea in the late Qing Dynasty to its present state in the post-Deng era. This thesis concludes that the economic theory finds its fine application in China as the patent protection mechanisms have been adopted primarily as an instrument for economic gains. The accelerated harmonization and internationalization of Chinese patent law and practice, notably after the Sino-American IPR negotiations, is the product of China’s genuine responses to its growing internal economic problems and external trade sanction pressures.

In legislative terms, China has in place a far more advanced patent law. However, enforcing its IPR laws has been rather problematic. As with any advanced functional
patent system, which demands a capable economy as well as an independent judicial system, China currently lacks such either economic or political resources. It is hoped that with the further development of its economy and its improved capacity to deal with IPR issues, China will find a way to balance the powers of its various organs, including that of the courts. Only when the courts become the powerful arbiters of last resort as their Anglo-American counterparts are, will China have a meaningful and truly internationalized patent law and practice.
Table of Contents

ABSTRACT ......................................................................................................................... II

TABLE OF CONTENTS ....................................................................................................... IV

ACKNOWLEDGEMENT ....................................................................................................... VI

INTRODUCTION .................................................................................................................. 1

I. LITERATURE REVIEW ..................................................................................................... 6

A. General Theories and Premises of the Patent System .................................................. 6

B. A New Era of Internationalization of IPR Protection Under the WTO ...................... 13

II. A HISTORICAL VIEW OF CHINA’S PATENT LAW ..................................................... 26

A. The Patent System Before 1949 .................................................................................. 26

1. “Zi Zeng Xin Pian” ...................................................................................................... 27

2. “Wuxu Law Reform Movement” .................................................................................. 30

3. Xinhai Revolution and Guomindang Government .......................................................... 31

B. The Patent Protection Methods After 1949 ................................................................. 35

1. The Double-Track System ......................................................................................... 35

2. The Invention Award System ....................................................................................... 38

III. INTERNATIONALIZATION OF PATENT LAW IN POST-MAO ERA ......................... 40

A. Modernization of Chinese Patent Law ........................................................................ 40


3. Summary .................................................................................................................. 57

B. China’s Involvement in International Conventions for Patent Protection ............... 58

1. The Renewed Sino-American Commerce and Navigation Treaty .............................. 59

2. The Paris Convention and the Patent Co-operation Treaty ......................................... 60

3. Summary .................................................................................................................. 62

IV. INTERNATIONALIZATION OF PATENT LAW IN THE POST-DENG ERA........... 63

A. Minimum Standards .................................................................................................... 64

1. Patenable subject matter ............................................................................................. 64

2. Bundle of exclusive rights ......................................................................................... 70
Acknowledgement

I would have been unable to complete this work without the help of many individuals. In particular, I would like to express my special gratitude and appreciation to Professor Pitman B. Potter, my principal supervisor, for his guidance, encouragement and expert advice. I would also like to thank Professor Ivan L. Head, Q. C., for sitting in the supervisory committee, providing valuable insight and reviewing this thesis. I would also like to thank Martina Lee for her help in polishing the thesis.

I cannot thank enough my family and friends who have contributed indirectly but essentially to the completion of this dissertation. My deepest gratitude is to Guangxi, my husband, and Fanglian, my mother. From them, I found my inspiration.
INTRODUCTION

With the conclusion of the GATT Uruguay Round in 1994, a new set of international intellectual property protection rules has been established: the Trade Related Intellectual Property Rights, including Trade in Counterfeit Goods ("TRIPS Agreement"). This agreement not only establishes a much higher universal minimum standard of IPR protection, but also creates a binding enforcement mechanism for signatories of international conventions on IPR.¹

In the wake of the emerging trade-related IPR issues around the world, the PRC has been undergoing economic reforms that are aimed at transforming its centrally planned economy into a market economy. The shift to economic modernization and integration with the rest of the world has also necessitated institutional and legal reforms. Not only much of China’s existing technocratic, political and legislative machinery is incompatible with aspirations for a more classic market freedom and international practice, but also many newly emerged institutions and transactions demand legal definition.²

Recent development of Chinese patent protection system exemplifies China’s efforts to bring its legal framework in harmonization with the rest of the world. In the field of IPR protection, the People’s Republic of China has accomplished in a decade

¹ See introduction of the GATT document: the TRIPS Agreement, reprinted in (1994) 25 IIC.
what took many countries several decades to achieve: the establishment of a modern intellectual property protection system.\(^3\) The system consists of a new body of IPR legislation, specialized intellectual property courts in several major Chinese cities, intellectual property divisions in most of China's Intermediate or Higher People's Courts, and a group of newly emerged IPR lawyers and highly trained judges.\(^4\) However, the scope and enforcement problem of Chinese patent law and practice has frequently been the subject not only of intellectual inquires\(^5\) but also of bilateral trade negotiations.\(^6\)

In an attempt to provide a detailed analysis, this thesis focuses on the internationalization aspect of the development of Chinese patent law and practice which slowly took place after the inception of the open-door policy adopted in the late 1970s and has been accelerated by the Sino-American IPR negotiations. Chapter I reviews contemporary literature of the general theories and premises of the patent system as well as the developing countries' positions on the issue at the international front. Contemporary literature on patent is characterized by what has been termed the dichotomy between the rights theory and development theory, or natural rights versus the economic theories. The essence of the natural rights theory is that patent rights derive from a person's natural rights according to the natural law. However, the patent system in

---


\(^4\) *Id.*

\(^5\) Among questions that have been raised, one is "is such establishment a response to genuine internal organizational problems or just ceremonies and myths used to gain legitimacy in the eyes of important or powerful actors in the political environment?" See Andrew G. Walder, "Harmonization: Myth and Ceremony? A Comment" (1994) 13 UCLA Pacific Basin Law Journal.

\(^6\) For example, the 1992 revision of the Chinese patent law was a direct product of the 1992 MOU between China and the U.S.
many ways fails to come to terms with the universality character as dictated by the rights theory. Although the vigor of the rights theory has long faded with the emergence of more utilitarian perspectives, which emphasize economic functions and incentives of the patent system, the TRIPS Agreement has revived the rights theory through its extraterritorial assertion of intellectual property rights in international trade.

With their economies at various developing levels, the developing countries generally prefer a lax international IPR system as reflected in the Paris Convention. The developed countries’ drive for an enhanced international system, as codified in the TRIPS Agreement, reflects the simple fact that globalization of information has outpaced the ability of individual sovereigns to protect their vital resources. The conclusion of the TRIPS Agreement signals a new level of internationalization of IPR worldwide.

Chapter II presents a historical view of Chinese patent law and practice by focusing on important historical events that shaped and affected the early Chinese patent protection mechanisms. The evolution of the Chinese patent protection mechanisms reveals that the patent system was used primarily as an instrument for economic rather than political purposes and that by so doing, the Chinese governments endorsed the economic theory of the patent system.

Chapter III deals with internationalization of Chinese patent law and practice in the post-Mao era. As a matter of fact, internationalization of Chinese patent law and practice did not occur until after the introduction of the open-door policy in the late 1970s that officially ended the self-imposed and externally enforced isolation in Maoist China.
During the first part of the era, i.e. before 1989, marked by the enactment of the first modern Chinese Patent Law in 1984 and China’s subsequent participation in the Paris Convention in 1985, internationalization of Chinese patent law and practice was rather at a slow and gradual pace. However, the second half of the era beginning in 1989 has seen an accelerated internationalization period marked by the conclusion of several Memorandum of Understandings (MOU) with the U.S. government in 1989, 1992 and 1995 respectively and the revision of the Chinese Patent Law in 1992. As a consequence, the Sino-American intellectual property negotiations have further pushed the level of patent protection provided in China to the international standards.

Chapter IV discusses the Post-Deng era in which China faces the primary task of bringing its patent system into compliance with the TRIPS standards. Although China is not a WTO member yet, the TRIPS Agreement represents a culmination of China’s efforts in improving its IPR protection. This Chapter compares current Chinese patent law and practice with the essential TRIPS requirements on issues of minimum standards and enforcement requirements. In terms of the substantive standards, the Chinese Patent Law is far more advanced despite some existing legislative defects. Food, chemicals and pharmaceuticals are all patentable subject matters. With respect to enforcement mechanisms, given their organizational structures, Chinese courts and some administrative organs are not a solution to but a part of China’s lax IPR enforcement problems. Clearly, the institutional dependence of the court system remains the big obstacle ahead as it is closely tied to the political and social structures of China. It is
hoped that with the further development of its economy, China will find a way to balance
the powers of its various organs, including that of the courts.
I. LITERATURE REVIEW

A. General Theories and Premises of the Patent System

Creativity and innovation have been the foundation of the development of humankind. A patent is basically a state-conferred monopoly which is granted to an individual, who has invented something that is new, useful and has industrial applications, for a limited time after which it becomes available to the public. Despite the controversies as to the effects of the patent system, it has been claimed that "where a patent system has been in place for literally centuries, there is an undeniable link between the success of one's industry and the patent system." "By any fair measure, the legal notion of patents, as well as copyrights and trademarks has been a huge success...This world of cultural achievement and material plenty relies heavily on the incentives provided by intellectual property regimes." 

According to economist Edith Penrose, essentially two categories of arguments have been advanced to justify granting of patent: the natural rights thesis and the economic theories. The rights thesis, which was developed at the end of the eighteenth...
century, contends that a person has a natural property right in the creations of his mind and to the product of his labor and this should be recognized as his property, whether tangible or intangible. That being the case, society has an obligation to protect against the improper use of an individual’s own ideas by another without some form of compensation, as was vividly uttered by the famous inventor Charles Dickens more than a century ago in his “Poor Man’s Tale of a Patent”:

“Thereby I say nothing of my being tired of my life, while I was patenting my inventions. But I put this: Is it reasonable to make a man feel as if, in inventing an ingenious improvement meant to do good, he has done something wrong? How else can a man feel, when he is met by such difficulties at every turn. All inventors taking out a Patent MUST feel so. And look at the expense. How hard on me, and how hard on the country if there is any merit in me (and my invention is took up now, I am thankful to say, and doing well), to put me to all that expense before I can move a finger!”

However, if a patent system is based on the rights theory, a fundamental characteristic of such system would appear to be universality, protecting all forms of inventions without excluding any subject matter, without territorial boundaries and limitation as to the duration of the exclusive right. However, the failure of the patent system to satisfy these idealized characteristics of a natural-rights-based system has been

---

the principal criticism of this theory.16 There seems to be very little that could be reasonably categorized as a natural right in intellectual property law, particularly with reference to patents at both national and international levels.17

It is not deniable that the rights theory has exerted considerable influence in continental jurisdictions and might be one of the reasons that the early French patent system evolved into the leading example of a registration system.18 However, the notion of an invention as an inherent natural right is difficult to reconcile with the patent examination procedure, currently required by most nations' patent laws.19 In England, the common law tradition with its reliance on custom and precedent posed an instinctive barrier to the natural rights theories, and the justification for the patent system on the basis of this thesis was never very common in England.20 In the United States, the Supreme Court of the United States in Graham v. John Deere Co. clearly restated the view of the American founding father Thomas Jefferson that “the patent monopoly was not designed to secure to the inventors...natural right(s) in (their) discoveries. Rather it was a reward, an inducement, to bring forth new knowledge.”21 This was eventually ratified in the U.S. Constitution.22 However, it may be by virtue of the humanitarian nature of the United Nations that the spirit of the Right theory is enshrined in art. 27 of

---

15 For a more contemporary discussion of the natural rights theory in relation to a patent system, see A. Samuel Oddi, “TRIPS-Natural Rights and a Polite Form of Economic Imperialism” (May 1996) 29 Vanderbilt Journal of Transitional Law 429-430.
16 Id. 430.
17 See A. Samuel Oddi, 423.
the Universal Declaration of Human Rights which provides: “everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.”

However, the vigor of these arguments has long faded with the emergence of the economic thesis, either due to the flaws of the rights thesis or to the fact that historically, the basis for granting patents was to encourage local industry, employment and economic growth. Central to the contemporary arguments for the retention of industrial property protection in general and patent rights in particular, is the assertion of the primacy of industrial property protection as an incentive for invention and innovation. On the one hand, the patent system provides an economic incentive to invent by offering the possibility of reward to the inventor and to those who support him. The temporary monopoly garnered by the patent right permits a return on ingenuity, investment, and effort to the inventor while at the same time precluding competitors from obtaining a free ride without paying the developmental costs borne by the inventor. This prospect encourages the expenditure of time and private risk capital in research and development, thus achieving certain desirable social goals.

---

21 See 383 U. S. at 8-9.
22 See A. Samuel Oddi, 420.
27 Id.
On the other hand, according to the economic theory, society as a whole benefits from the dissemination to the public of technical information by the instrument of the patent system. In exchange for the monopoly, the inventor must disclose the invention that might otherwise be kept secret. Currently all patent laws of every nations impose a disclosure obligation in one form or another, on potential patentees as a prerequisite of granting a patent. The disclosure requirement "lies at the heart of the whole patent system" and "the grant of a patent is in the nature of a bargain between the inventor on the one hand and the Crown, representing the public, on the other hand." In this view, the patent is presented not as a privilege but as the result of a bargain between the inventor and the society in the spirit of Rousseau's social contract. In *Pioneer Hi-Bred Ltd. v. CP (1989)*, the Supreme Court of Canada declared the social contract theory to be the basis of the Canadian patent system.

As with the rights theory, the utilitarian arguments presented by the economic incentive theory have not been spared criticism. Such criticisms have emphasized the much higher cost to society to operate the patent system than the supporters of the system will acknowledge. Despite the criticisms, the history of the national patent systems suggests that the utilitarian views have usually dominated considerations of morality and

---

29 For example, the "best mode" requirement in the U.S. and "working Example" requirement in Japan, etc.
32 See 60 DLR (4th) 223 at 232-33 (SCC).
fairness.35 Indeed, as a school of jurisprudential thought, natural law is surely not at the forefront in the last throes of the twentieth century.36 With the conclusion of the TRIPS Agreement at the GATT Uruguay Round, the natural rights theory has regained its pre-eminence. The patentable subject matter and the term of the protection provisions in the TRIPS are submitted to represent primarily a natural rights philosophy.37

Recent development of the patent theories is the emergence of the new economic development thesis, i.e. the "stages approach," 38 which has been claimed as a new school of thought.39 The difference between the stages theory and the previous ones is that it examines the patent system on a country-by-country basis while the previous ones are confined within a single country. The crux of the stages approach is that as a natural result of certain economic development, the level of patent protection provided in one country corresponds with its economic development level:

A country at a very low economic development level will not benefit from granting patent since its economy can be expanded by implementing older inventions that are already in the public domain. As the country develops, it becomes capable of using more advanced technology and may become a patent pirate. Eventually, a country will reach the stage that its business can create world-class inventions. The profit from piracy is outweighed by the losses due to the failure to provide patent protection. Thus at this stage a country is economically forced to provide patent protection.40

36 See A. Samuel Oddi, 417.
37 Id. 434.
40 See Stefan Kirchanski, 569.
Some critical analyses of the economic development theory emphasize the need to adopt a comprehensive approach when evaluating a country’s IPR system. Such analyses suggest that weak protection is the equivalent of no protection, thus calling into question the soundness of the stages approach. It is no doubt that the stages theory has gained significant support from developing countries which may justify their “inefficient” patent protection. Rooted also in the development theory, the conventional wisdom presented in the pre-1970 literature concluded that non-industrialized countries and countries in the early stages of industrialization gain nothing from granting foreign patents and should be exempt from any international patent arrangements.

Understanding the patent system requires attention to other general arguments put forward by the opponents of the patent system. The system was challenged almost from the beginning of the industrial revolution. For example, as early as 1754 in England, the Society for Encouragement of Arts, Manufactures and Commerce was established largely for the purpose of abolishing the patent system and replacing it with a system of private inventor awards. Such anti-patent movement was initiated mainly because of numerous defects inherited in the patent system, such as reduced output and higher prices - the obvious and usual cost of monopoly, the cumbersome and costly incidents of operating the system, and the possibility that the system may impede the very thing it was

---

established to encourage: technological progress as well as the potential economic concentration that the patent system may reinforce.\textsuperscript{45} Thus, some scholars and economists have long concluded that "If we did not have a patent system it would be irresponsible, to recommend instituting one. But since we have had a patent system for a long time, it would be irresponsible, on the basis of our present knowledge, to recommend abolishing it."\textsuperscript{46} The patent system "survives only because there seems to be nothing better."\textsuperscript{47}

B. A New Era of Internationalization of IPR Protection Under the WTO

The disappearance of the cold war in international system and the emergence of market-oriented global integration have created new opportunities for the establishment of a liberal international order based on principles of constitutionalism and democracy.\textsuperscript{48} International economic law continues to reflect the worldwide trends towards protection of human rights, democracy, deregulation and the globalization of market economies. The entering into force of the World Trade Organization (WTO) Agreement on 1 January 1995 is a major achievement towards global economic integration based on the rule of law and democratic structures for the benefit of individual citizens.\textsuperscript{49}

\textsuperscript{44} See Harold C. Wegner, at 106, footnote 151.
\textsuperscript{45} See Vaver and David, \textit{The Protection of Industrial and Intellectual Value}, (1971) at 887.
\textsuperscript{46} \textit{Id.} at 890.
\textsuperscript{47} See Jewkes, Sawers and Stillerman, \textit{The Sources of Invention}, (1959) at 252.
\textsuperscript{49} \textit{Id.} 434.
Intertwined with the evolving patterns of international trade is the emerging importance of IP matters.\(^{50}\) As the universe of potential participants in a new global economic order increases, the complexity of the IP issue is also enhanced.\(^{51}\) Thus, the protection of IP rights “is rapidly becoming one of the most critical trade and investment issue of this decade and beyond.”\(^{52}\) As a global integration agreement, the WTO Agreement not only exerts its unprecedented impact on liberalization of international trade by reducing the current fragmentation of separate international agreements and organizations for movements of goods, services, persons, capitals and payments, but also unifies the international law and organizations of intellectual property primarily administered by the World Intellectual Property Organization (WIPO).

The international law of intellectual property is also one of the areas where the interests of the developed countries and developing countries are inextricably linked. Being the birthplace of the intellectual property rights,\(^{53}\) the developed countries support a broad base of intellectual property rights. When the Paris Convention, the first international patent protection convention, was formulated in 1883 as the result of European leadership in patent co-operation and modernization,\(^{54}\) none of the founding member states was a developing country. The Paris Convention was founded at a time when the major nations in the world faced growing economic pressures and demands for


\(^{51}\) Id.

\(^{52}\) See the statement of Harvey E. Bale, Jr., assistant United States Trade Representative, on Intellectual Property Hearings, supra note 15, at 51.


\(^{54}\) See Harold C. Wegner, at 22.
their advanced industrial property to enjoy protection in foreign countries and to expand foreign markets. To achieve these goals, the Paris Convention established a few basic procedural principles and left substantial matters at the discretion of the member states.55

The corner-stone of the Paris Convention is the principle of national treatment. Article 2 of the Paris Convention obliges member states to grant to nationals of other countries of the union without prejudice to the minimum rights provided for by the Convention all the advantages that their respective laws had granted, or will grant in the future, to their own nationals in relation to the protection of industrial property.56 It appears that the member states of the Paris Convention had, at the time, entered into this commitment convinced that a more far-reaching form of international protection of industrial property was not yet possible, and that the system of the Paris Convention - the combination of national treatment with a set of common minimum standards—would constitute a realistic basis for a truly international system of industrial property protection.57

The principle of national treatment was adopted despite the fact that national protection of industrial property was not well developed at the time, and that some countries did not even have sufficient patent, trademark, and design protection.58 As a consequence, the practical effect of this provision has been perceived to be that those

55 See the Paris Convention.
56 Id. art. 2(1).
58 Id. 274.
right holders receiving better protection abroad will seek to gain better protection from their own domestic law, thereby improving worldwide protection incrementally over time and solidifying world consensus.\(^59\) However, in light of the recent dramatic technological development and increase in counterfeiting, the obligation to accord national treatment under the Paris Convention is criticized as merely formal in nature.\(^60\) Where the level of protection is low or non-existent, the foreign holder will derive little from the Convention. The low level of protection provided by many developing countries has actually caused economic harm to developed countries.

The second principle of the Paris Convention is the right of priority. According to the rule, applications for patent in a convention country for which they have previously applied in another convention country are entitled to receive the filing date and priority of the previous application, provided that the second application is made within 12 months of the earliest application filed in any convention country.\(^61\) The principle was further strengthened by the independent protection requirement, which provides that the enjoyment and exercise of the patent rights granted by other Convention member states are independent of the existence of the protection obtained in the country of origin.\(^62\) Thus, the goal of predictability was assured.

\(^60\) See Gail E. Evans, "The Making of the TRIPS Agreement" (December 1994) 18 World Competition 147.
\(^61\) See the Paris Convention, article 4 A, B, C.
\(^62\) Id. article 4(2).
It is not deniable that the economies of these countries greatly benefited from such relatively loose regulations as prescribed by the Paris Convention. However, nearly a century later, it was these countries that began to criticize the same system that would no longer maintain their status quo by offering an even-level playing field for the developing countries.\textsuperscript{63}

- it does not adequately address the subject matter of technologies;
- it does not set a minimum patent term;
- it does not expressly provide for the payment of full compensation for compulsory licenses;
- it is too permissive with respect to the granting of compulsory licenses; and
- though providing for recourse to the International Court of Justice in disputes between Member States, the Convention does not establish standards for national enforcement and cannot, in any event, be considered to provide meaningful dispute settlement mechanism.\textsuperscript{64}

Behind the developed countries' drive for strengthened IPR within the framework of the GATT is not merely the belief that strong IPR exert an unreservedly positive influence on developed free-market economies, but more the assertion that the acquisition of non-indigenous technology by developing countries other than by imports or license

\textsuperscript{63} It is ironic that the relatively loose international IP system, which had benefited the developed countries' economies at the time, is now being criticized as being too loose. See Frederick S. Ringo, “The TRIPS Agreement and Legal implications for Sub-Saharan Africa: Prospective Policy Issues for the World Trade Organization” (1994) 28 Journal of World Trade 122-123.

constitutes not only an *illicit* economic loss to the technology exporting countries, but also "distortions of and impediments to legitimate trade in goods and services" at the international level. In fact, what is argued is that a society cannot continue to invest in the expansion of the domain of human knowledge, even for the betterment of humankind, without gaining a return on the expenditure.

The essence of such argument is the extraterritorial assertion of IPR in international trade. It argues for the universality of patent rights -- protection without territorial limitation. Thus, "theft," "pirating" and "infringement" as well as "illicit loss" occur any time an invention patented anywhere in the world is copied anywhere else in the world. Nonetheless, it is perfectly legal to replicate an invention that is in the public domain of a particular country. It is only through the theoretical construct of natural property rights that inventions are to be protected universally and that such copying becomes "immoral."

On the patent premise issue, the developing countries do not share the natural rights premise with the same passion. Aside from encountering the inherited dilemmas in granting a patent system, most developing countries have more different interests to be

---

68 See A. Samuel Oddi, 432.
69 *Id.* 433.
balanced. In fact, much of the concern of developing countries with the way in which the international industrial property system operates has focused on the domination by the developed countries over patent ownership. For example, it was found that from the period of 1948-1957, between 80% and 90% of Indian patents were held by foreigners and more than 90% of them were not worked in India. In general, the developing countries' proposition is that given the number of patents granted in their own countries and owned by their own nationals, the developing counties would be much better off not providing foreign patent protection. Moreover, allocating the scarce resources on the enforcement of foreign patent rights would further retard the developing countries' already slowed economic development.

Relevance here is the mentality of the developing countries' policy and law makers, which can be traced to the dependency theory. “Dependence” as a particular explanation of underdevelopment was a popular phenomenon in the 1970s and its terminology has since become a part of the standard tools of development economists. As a critique of “vulgar” Marxism and imperialism, the main contribution of dependency writings was its emphasis on the effects of imperialism and dependency on

---

70 See Michael Blakeney, Legal Aspects of the Transfer of Technology to Developing Countries, (Oxford: ESC Publishing Ltd., 1989) at 80.
underdevelopment, development, and distorted development in the periphery.\textsuperscript{75} One prong of the theory is the inequality generated in the hierarchically ordered international economy. The other prong is the behaviors of foreign firms that are detrimental to the local economic development.\textsuperscript{76} According to the theory, among other characteristics of dependence, ‘dependent’ economies are, usually rightly, said to suffer from the use of excessively capital-intensive technologies taken from developed countries. The distortions that this practice creates, in terms of exacerbating a highly uneven distribution of income, ‘marginalizing’ large sections of the population, and perpetuating the reliance on the import of foreign know-how, may be seen to provide a measure of dependence.

However, the usefulness of the dependence concept in analyzing underdevelopment has been called into question\textsuperscript{77} and “criticizing dependency theory has become an academic industry of the worst sort.”\textsuperscript{78} The weakness of the dependence perspective is its tendency to underestimate or completely ignore the role of the state in development and underdevelopment.\textsuperscript{79} A number of dependent economies have demonstrated an ability - backed perhaps by a heavy reliance on Multi-national Corporations and on particular political and institutional measures - to integrate their

\textsuperscript{75} See Packenham, at 17-19.
\textsuperscript{76} See O’Brien Philip, at 16.
economies closely with the rest of the world. The success of the East Asian Newly Industrialized Countries vindicated the liberal prescriptions of market-oriented politics and participation in the world economy. As an important indicator of government policies and a crucial tool to attract foreign investment and technology transfer, a country's patent law is an integral part of the economic development framework.

With respect to the moral dimension of the IPR issue, the developing countries point to the fact that as the United States and other developed countries struggle to find new techniques to combat modern health problems, large regions of the world live without food and basic medicines. This lesson is surely not lost in a country that sends its armed forces half-way around world in order to feed the starving masses in Somalia. In fact, much of the emphasis in every United Nations' effort regarding development over the last twenty years has been on the need to improve the quality of life for all citizens of the world, especially for those in the developing countries. Both the Declaration on the Establishment of a New International Economic Order and the Charter of Economic Rights and Duties of States take their cues from Article 25 of the Universal Declaration of Human Rights which affirms that "everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food,

---

80 See Sanjaya Lall, 805.
81 See Haggard, *Pathways From the Periphery*, at 2.
82 Developing countries maintain that science and technologies, as the common heritage of mankind, are international public goods. See *The Challenge to the South*, the report of the South Commission, (Oxford University Press, 1990) at 255. However, in the field of the international law of the environment, the developed countries would emphasize genetic resource as part of the common heritage of humankind. See Susan H. Bragdon, "National sovereignty and Global Environmental Responsibility" (1992) 33 Harvard International Law Journal 389.
clothing, housing and medical care and necessary social service." Technology and ideas can offer wonderful opportunities to those who own them; they also carry with it a responsibility to those who can truly benefit from its use.84

Unfortunately, such a moral ground is not a binding one. Resolutions, declarations and other decisions adopted by the bodies of the United Nations (UN) system, or held under UN auspices cannot, merely because of their adoption, be automatically considered as embodying obligations legally binding in absence, *inter alia* of a sufficiently broad consensus of states of different levels of development and different social systems.85

"Such consensus, reflecting a requisite *opinion juris*, is one of the necessary preconditions to creating international rights and obligations binding states."86 After all, a common definition of international leadership is still based on the capacity of a country to maintain a relative primacy in the generation and commercialization of new technologies.87

The recently concluded TRIPS Agreement is unprecedented in worldwide IPR protection. By establishing more stringent *universal* minimum standards on IP protection and by creating a binding enforcement mechanism for signatories of international

83 See the Universal Declaration of Human Rights, art. 25.
86 *Id.*
conventions on IP, the Agreement represents a new era of internationalization of IPR protection worldwide. The TRIPS universal minimum standards of protection must be complied with by members of the WTO, regardless of its impact on social welfare in that country. In essence, member countries, should sacrifice their national interests in favor of the posited higher order of international trade. Under the TRIPS Agreement, all members have one year following the date of entry into force of the WTO to implement the provisions of the TRIPS Agreement. The developing countries are entitled to a delay of an additional four years for all provisions of the Agreement with the exception of national treatment and Most-favoured-nation treatment. If countries in the process of transition to a market economy are facing special problems in the preparation and implementation of IPR laws, they may request the benefit of the four-year delay. Less-developed countries have ten years to conform to the Agreement. However, issue remains as to whether the developing or less-developed economies would surly turn into developed ones within the TRIPS’ prescribed time frames.

Even Western legal scholars confess that the TRIPS standards may be too high to be beneficial for the developing countries as a class. But they emphasize that an evaluation of the TRIPS’ standards has to be put in a much broader context of the Uruguay Round. Developing countries accepted the Agreement not simply because they concluded that the Agreement as a stand-alone matter was necessarily in their best

89 See A. Samuel Oddi, 440.
90 See the TRIPS Agreement, Part VI: Transitional Arrangements.
interests. It is known that most multilateral trading rules are the result of trade-offs and compromises between sovereign states. As one of the most important results of the GATT Uruguay Round negotiations, the TRIPS Agreement is no exception. Market access for developing countries, notably in agriculture and textiles, constituted a bargaining chip to be exchanged for greater protection of intellectual goods within a restricted global market place. Although there was limited empirical data to make an economic analysis of the potential implications of the TRIPS Agreement, it is hoped that what developing countries relinquished with respect to IPRs will be compensated by the gains from the lowering of tariffs and non-tariff barriers generally under the WTO.

The conflict between developed countries and developing countries on international IPR protection, although already codified, remains unabated. As scholars, legislatures, and government policy makers on each side search for new propositions and justifications, many developing countries have in fact adopted an IPR system. This choice probably has been motivated by a belief in the predicted benefits of an IPR system, as well as a belief that having an IPR system reflects a certain level of status. The threats of a potential trade retaliation employed by the United States even after the TRIPS

92 See Frederick M. Abbott, 472.
94 See Frederick M. Abbott, 473.
95 See J. H. Reichman, “Compliance With the TRIPS Agreement” 374.
96 See Stefan Kirchanski, 569.
Agreement are providing additional reasons for the developing countries to adopt an IPR system. But the motivations and pressures for the adoption of an IPR system and the level of protection thus provided may vary considerably on a country-by-country basis. The following presents a Chinese case study of the internationalization of IPR protection worldwide.

97 For a general reassessment of the Section 301 under the TRIPS and DSU, see Myles Getlan, "TRIPS and the Future of Section 301: A Comparative Study in Trade Dispute Resolution" (1995) 34 Columbia Journal of Transitional Law 173-218.
II. A HISTORICAL VIEW OF CHINA'S PATENT LAW

A. The Patent System Before 1949

As one of the cradles of the ancient civilizations of mankind, the Chinese are credited with notable inventions such as printing, gunpowder, paper and compass. However, China failed to build upon those technological advantages and create an indigenous industrial power. According to Mark Elvin, there are two theses that attempt to explain this phenomenon: the Weberian method and the Sinha-Elvin thesis.98 It is precisely because China and Europe were at equivalent levels in technical terms that the Weberian method looks to the cultural tendencies that led the Chinese to forego commercialization of such inventions.99 On the contrary, the Sinha-Elvin thesis emphasizes the economic and ecological restraints that resulted in a sense from a sort of pre-modern over-development.100 The theory of the high-level equilibrium trap assumes that invention and innovation in the economic field in general appear when there is an effective consumer demand to make them profitable, and an adequate supply of material and services to make them feasible.101 In China, demand and supply of materials were increasingly constrained by a special combination of circumstances that gradually spread across the countries.102 The Sinha-Elvin approach is effective in explaining the differential response in modern times of different parts of the Chinese cultured-area to the challenge of imitative modern

99 Id.
101 Id.
economic growth. The explanation in terms of economic and ecological factors also suggests that traditional Chinese values and ideas were in most respects already suitable for modern economic growth and that the key inhibiting constraints were not cultural.103

Thus, when the Statute of Monopoly was enacted in England in 1624, the legal safeguarding of rights in the products of creative thought was virtually non-existent or ignored in China. As far as the patent premises are concerned, in the absence of the fundamental legal institutions such as the principles of equality, human rights, and private property based on which is the western patent legal system, it is difficult to reconcile early Chinese patent protection system with the rights theory. It should be noted that although the spirit of the rights theory has gained profound recognition in China’s contemporary academic field, the rights theory has not been codified yet in China. On the contrary, the development theory finds its fine application in the development of Chinese patent protection system. The Chinese governmental regimes never failed to recognize the role that the patent monopoly system could play in stimulating its economic development and the economic theory constituted the constant themes of the various patent protection programs.

1. “Zi Zeng Xin Pian”

The idea of a patent did not exist in China until the middle of the 19th century when commerce and merchandising began to develop in the late period of feudalism.104 Some

102 See Mark Elvin, The Pattern of the Chinese Past, at 298-316.
103 Id.
Chinese legal scholars believe that the idea of monopoly in China can be traced back to as early as 206 B.C. in the Han Dynasty when the exclusive privileges to produce, make and sell tea, salt, iron, silk and porcelain were controlled either in the hands of the government or granted to certain private individuals. But this privilege of monopoly should be differentiated from patent monopoly that mandates, among other criterion, an element of invention.

The 1840 opium war, which opened China up with the introduction of opium and western technology, greatly instigated the growth of commerce and related industries that had already began to develop inside the Chinese society. As early industries began to develop, the needs to protect these interests arose. In the mean time, the opium war also woke up a few respected and erudite people such as Hong Xiuquan, Kang Youwai and Dr. SunYet-Sen, who began searching for solutions from powerful western countries. In 1851 (late Qing Dynasty), China saw the eruption of an unprecedented

---


106 There was a growing debate among Western scholars over the degree of imperialist penetration in China and its effect upon the development of Chinese society. The unresolved question remains to be that whether capitalism would have developed in China without the added stimulus of the nineteenth and twentieth century’s imperialism. In his essay on “The Chinese revolution and the CCP” in 1939, Mao Tse-tung wrote that “It was not until the middle of the nineteenth century, with the penetration of foreign capitalism, that great changes took place in Chinese society. However, China’s feudal society already contained ‘the seeds of capitalism’, whose growth was only accelerated and also distorted by foreign capitalism.” See Selected Works by Mao Tse-Tung, Vol. 2, at 309.


peasant revolution - Taiping Rebellion under Hong Xiuquan and the subsequently established government - Taiping Heavenly Kingdom in Nanjing in 1853. Of legal importance was the historical document named “zi zeng xin pian,” drafted in 1859 by the reformist and the Minister of the Military and Administration Hong Rengan. It was in this famous petition that Hong Rengan advocated the idea of patent protection. He believed that a patent system encouraging inventive activities was a precondition for industrialization. He proposed that if one could make a train that would run eight thousand miles a day, one would be rewarded with a patent, and others would be prohibited from making the same thing. Any offenders would be punished. The duration of the protection period was ten years for major inventions and five years for minor inventions.

Gone with the short-lived Taiping government was “zi zeng xin pian,” which, unfortunately, was never put into practice during the existence of the Taiping Heavenly Kingdom. Its far-reaching significance, however, can never be overestimated. Widely

---

110 Id.
111 See YongQing Xiao, The Concise Legal history of China, (Shanxi People’s Publication Press, 1982) at 68-71.
112 See Jiafu Wang, at 48.
114 Id. at 40.
believed to be the budding of the western idea of patent protection in China\(^{115}\) and a document reflecting the thoughts of bourgeoisie democracy, "zi zeng xin pian" not only influenced the forth-coming Chinese governments and policy makers, but also set the conception of the patent system at a high level. The wording of "significant improvement" clearly embodies one of the modern requirements for patentability: inventive ingenuity, in addition to the requirements of novelty and utility. Moreover, the insertion of penalty provisions would have undoubtedly reinforced the system.

2. **"Wuxu Law Reform Movement"**

One positive result of the increasing exploitation and colonialization of China by western powers after the Sino-Japan JiaWu War in 1894 was the rising "National Capitalism," represented by a class of intellectuals imbued with capitalist ideas. The uprising of the "Wuxu Law Reform Movement" in 1898\(^{116}\) called for reform in the political system and progress in the deteriorating economy.\(^{117}\) The movement took the form of petitioning to the puppet but patriotic Qing Emperor Guangxu. Among a dozen of reformatory decrees announced by Emperor Guangxu during the 103-day reform movement,\(^{118}\) the Awards for Stimulating Technique and Craftsmanship ("the Awards") was vigorously pursued by the reformists in hope for an economically stronger China.

The Awards consisted of 12 articles. It granted patents for inventions that were new and useful for a period of 10 to 50 years according to the value and usefulness of the

---
\(^{115}\) See the Blue Paper, at 9.
\(^{116}\) See YongQing Xiao, at 104-105.
\(^{117}\) Id. at 105.
inventions.\textsuperscript{119} Things that could be patented included new inventive machines, ships, guns or new processes and methods to make them. The novelty requirement was that either the invention was not previously known or used in any other country or not publicly used in China.\textsuperscript{120}

Although only a handful of patents were actually issued during the short three-month period when the Awards was effective,\textsuperscript{121} the Awards is the first regulation by the government that provided for patent protection in China. It reflected the social objective needs of the time as echoed by the reformative force: an economically stronger China. However, the reformative measures encountered strong opposition from the conservative force, as represented by the Dowager Chi-Xi. The opponents contended that granting patent protection would inevitably impede imitation and spread of foreign advanced technology and craftsmanship.\textsuperscript{122} With the miscarriage of the reform movement, the Awards was brought to an end.

3. \textbf{Xinhai Revolution and Guomindang Government}

Where there is oppression, where there is resistance. In the early twentieth century, the Imperial West’s tighter control over China’s economic life, coupled with their frequent encroachments on Chinese territory, provoked widespread resistance among the masses

\begin{footnotesize}
\begin{itemize}
\item[\textsuperscript{118}] See YongQing Xiao, at 104-105.
\item[\textsuperscript{119}] See Jiafu Wang, at 49-50. See also Zhongxi Tang, at 21.
\item[\textsuperscript{120}] \textit{Id.}
\item[\textsuperscript{121}] Under the Awards, a patent for fabric weaving technique was issued to Shanghai Fabric Weaving Manufacturer. See Zhongxi Tang, at 21.
\item[\textsuperscript{122}] \textit{Id.}
\end{itemize}
\end{footnotesize}
of the Chinese people.\textsuperscript{123} Inspired by the \textit{Wuxu Law Reform Movement} and wanting Western wealth and democracy and criticizing the evil exploitation and class polarization of the West, \textit{Xinhai Revolution} - a truly bourgeoisie movement led by Dr. Sun-yat Sen, established the Republic of China in 1912.\textsuperscript{124} The Tentative Constitution of the Republic of China enacted in March 1912, prescribed China as a democratic nation, with state power being divided among the administration, legislature and judiciary.\textsuperscript{125} The birth of the Republic of China, a triumph of the Chinese people against the imperialism and feudalism, marked the end of an era of more than two-thousand-year feudal governance in Chinese history and replaced “dynasties” and “emperors” with democracy and republicanism. However, the bourgeoisie government could not consolidate its power and democracy faded away after a short appearance in Chinese history.

Shortly after taking power in December of 1912, the Department of Industry and Commerce promulgated the Tentative Provisions for Awards for Craftsmanship (the “Tentative Provisions.”)\textsuperscript{126} According to this simple regulation which had 13 articles, only new inventions or improved products might be given patent right protection for less than five years if certain requirements were met.\textsuperscript{127} From 1912 to 1923, 34 patents in machinery and equipment were issued: 2 in electronics, 10 in chemicals, 6 in mining related technology and 16 in other fields.\textsuperscript{128} In 1923 a new version of the Tentative Provisions was introduced. Under the new provisions, patent subject matters were

\begin{flushleft}
\textsuperscript{123} See Bozan Jian, at 126.  \\
\textsuperscript{124} See Yongqing Xiao, at 116-120.  \\
\textsuperscript{125} \textit{Id.} at 120-122.  \\
\textsuperscript{126} See Jiafu Wang, at 51.  \\
\textsuperscript{127} \textit{Id.}
\end{flushleft}
extended to include not only products made by means of successful imitation of foreign products, for which only awards instead of patent rights would be available, but also processes which were new or had significant improvement over the existing processes. However, food and medicine were not patentable subjects. Counterfeiting and passing off would receive criminal punishment or fines. As far as foreign patent applicants are concerned, both Tentative Provisions denied their eligibility taking into consideration the possibility of interference and abuse by potential foreign patent holders.

Beginning in 1928, according to the newly promulgated regulations, the duration of invention protection was extended from 3 years to a maximum of 15 years. The Provisional Regulation for the Award for Industrial Technology, announced in 1932, made a significant progress in the invention protection system by introducing a public inspection process. Under such process, a patent would not be granted if opposition was submitted during the prescribed six-month period. This was obviously a significant step forward to the modern patent protection practices. In 1939, some modifications were made to the Provisional Regulation for the Award for Industrial Technology, one being that the utility models and new designs were added to the categories of patentable subject matter.

---

128 See Jiafu Wang, at 55, Figure 1.  
129 Id. at 51.  
130 Id. at 52. See also Zhongxi Tang, at 22.  
131 See Zhongxi Tang, at 22.  
132 See Jiafu Wang, at 53.  
133 Id.
However, China did not have any formal patent law until 1944 when the Nanjing Kuomintang government enacted the 1944 Patent Law, which came into force on January 1, 1949. Modeled on the format of western countries' patent laws, the 1944 Patent Law had far more extensive and detailed provisions on issues ranging from eligibility of the applicant, application procedures, patentable subject matter, duration to the examination processes, etc. Unfortunately, the 1944 Patent Law was never implemented in Mainland China. Relocated to Taiwan in October 1949 with the defeated Kuomintang government, the 1944 Patent Law became the legal foundations of Taiwan's current patent legal system.

In conclusion, early Chinese invention protection regulations and methods progressed slowly from a very rudimentary stage to a fairly detailed and extensive level. This process was rather consistent with the unique conditions that China faced at the time: a half-feudal and half-colonial society. Though a sovereign nation in name, China, a land of civil wars, was subject to the decrees of the imperial West. The so-called invention protection system prior to 1949, consisting primarily of decrees or regulations without any accountable and competent enforcement authorities, were simply pieces of papers imprinted with the governments' goodwill and desire for a strong and prosperous China. According to available data, only about seven hundred inventions had been granted patent rights from 1912 to 1944.

---

134 See Jiafu Wang, at 53.
135 Id. at 54.
136 Id.
B. The Patent Protection Methods After 1949

1. The Double-Track System

In 1949 the People’s Republic of China was founded and China became an independent nation. The Communist government adopted a central planning mechanism for its economic development. Being aware of its poor economic performance and acknowledging that industrial expansion was critical to maintaining internal political control and sovereignty, the central government recognized the role that a patent system would play in stimulating its industrial development and technological innovations. This was clearly reflected in the articles of the “Common Principles” - China’s tentative constitution. The Chinese government wasted no time in introducing the Tentative Provisions for the Protection of Invention Right and Patent Right (The Provisions) in 1950. The Provisions provided for two basic forms of protection: the invention certificate and the patent certificate (the so-called “Soviet’s Double-Track System”). In contrast to the patent certificate, the invention certificate did not confer any substantial rights on the holder except some monetary award and public recognition. The government was the owner of any inventions.

According to the Provisions, inventors, either foreigners or Chinese citizens or collective units had the option to decide whether to apply for an invention right or a

---

137 See Jiafu Wang, at 63. The articles read: “(We shall) endeavor to develop our natural science study to build our industry, agriculture and national defense. (We should) award scientific discoveries and inventions to spread scientific knowledge.”

patent right.\textsuperscript{141} However, for inventions that were related to national defense or medicine, or inventions that were made during employment or through government commission, only invention certificates were available.\textsuperscript{142}

As far as the patent certificate was concerned, the holder would enjoy the exclusive right to make and use his or her invention. Use by others without permission from the patent certificate holder would constitute infringement. An infringer was to compensate the holder for the economic loss suffered. A patent right might be licensed according to the terms agreed upon between the holder and the licensee, but the assignment was subject to approval by the competent authority of the central government. A patent right could also be assigned or inherited. In such cases, the successor had the same rights as the original holder. However, a patent right holder was forbidden to sell his invention to foreigners without appropriate approval. Moreover, the patent was subject to cancellation if not used for more than two years without good reasons.\textsuperscript{143}

These Provisions had several elements in common with modern patent practices, such as the requirements for the application for a patent, application examination, approval and opposition procedures, the term and the enforcement of patent rights. Contrary to the characterization of the extensive politicization of Chinese law that had occurred long before the Cultural Revolution,\textsuperscript{144} these Provisions delineated the patent

\begin{footnotesize}
\begin{enumerate}
\item[139] See Zhongxi Tang, at 9, 24.
\item[140] Id. at 24.
\item[141] See the Blue Paper, at 9. See also Zhongxi Tang, at 23.
\item[142] See Zhongxi Tang, at 23.
\item[143] For detailed provisions, see Jiafu Wang, at 63-66.
\end{enumerate}
\end{footnotesize}
rights in legal terms. Patent rights are a bundle of exclusive rights conferred by the government for the very purpose of encouraging invention and economic development instead of the natural rights inherent in one's creative body. The economic development purpose was also evidenced by the adoption of the invention certificate method. For inventions the subject matter of which was not patentable, such as medicine for social welfare reasons or had significant impact on national defense, or were made during employment, the invention certificate method played a supplementary role in providing economic incentives.

As with previous patent regulations or provisions, the double-track system was ineffective in producing the expected results. Statistics revealed that during the 13 years when the Provisions were effective, only 4 patent certificates and 6 invention certificates were issued.  Among other possible reasons, the answer lies in the very system itself. The co-existence of the “double-track” protection methods tended to be counteractive. Since inventors could only apply for an invention certificate for inventions made during employment and most citizens being state employees in the Socialist China, there was no clear line defining public and private property or time. The inevitable perception among the public would be that most inventions would undoubtedly be interpreted as invention certificate inventions, which were obviously less materially attractive than the patent certificate inventions.

See the Blue Paper, at 9.
2. The Invention Award System

In 1957, a "Hundred Flowers" had briefly bloomed in China. This movement to encourage non-Party criticism of the Chinese Communist Party (CCP) and the government bureaucracy in general had revealed that China's national bourgeoisie was more 'rightist' (that is, more critical of socialist policies) than had been suspected.\(^\text{146}\)

Thus, the following Anti-Rightist campaign and the Great Leap Forward movement of 1958 had led China to a state of ignoring legal principles, despising technological development and materialism. Facing the disastrous results of the campaigns, the CCP had shifted its policies towards a much more moderate stand. The reformer's motives for promoting law, although complex ones, were influenced by ideology and pragmatism, conscious political decisions, and irresistible forces, as well as internal and external considerations.\(^\text{147}\)

In the context of patent protection, this "reformist retrenchment," as it has been called, was reflected by the promulgation of the Invention Award Regulation in 1963, which formally replaced the Invention Certificate and Patent Certificate system.

Under the award system, the patent monopoly was replaced with monetary reward across the board. Although the regulation still recognized the utility of material reward for inventions, in legal terms it was a major step backward in the development of the patent legal system.\(^\text{148}\) According to the Award Regulation, "all inventions are the property of the State; all enterprises (both state-owned and collective units) are allowed to employ


\(^\text{148}\) See Chuntian Liu, at146.
them for free.”

Clearly, a claim of innovation was made, but invention was not asserted. Legality had thus been replaced by systems of domination and submission, an ideology that slowly began to consolidate after CCP took power and reached its climax during the Cultural Revolution. The monetary award system failed to perform as a potent force in economic development simply because it “would hardly ever be so precisely proportioned to the merit of the invention as it is.”

---

149 See the 1963 Award Regulation, art. 3.
III. INTERNATIONALIZATION OF PATENT LAW IN POST-MAO ERA

A. Modernization of Chinese Patent Law

The Third Plenum of the Eleventh Communist Party Congress in the late 1978 was an important milestone in Chinese history. It was during this session that a watershed policy - "the open door policy" - was adopted, which opened up China economically to the rest of the world. Since then China has embarked on an ambitious journey of economic reform with an aim to modernize Chinese economy by introducing foreign advanced technology and business administrative skills.

To achieve such goals and to create an investment environment, China has enacted a series of laws and regulations on foreign trade and investment that protect the proprietary interests of the foreign investors. Led by such new legislation, a new wave of domestic law reform has begun in China, which was characterized by restoring basic legal institutions and modernizing pre-existing branches of law in light of the international standards. Such efforts clearly "represented an extra-ordinary break with both the rhetoric and practices of the first 30 years after the establishment of the PRC, when China condemned foreign investment in the developing world as exploitation and eliminated all but a few remnants of pre-1949 foreign businesses in China."151

The advent of a modern patent law, an important part of the foreign investment law, was imminent and inviolable. China's increasingly internationalized economy

demanded a patent law that corresponds not only with the changing economic reality but also with the relevant international standards.

1. The Making of the 1984 Chinese Patent Law

Internationalization of Chinese patent law in the post-Mao era began with the modernization of its patent law, i.e., the making of the 1984 patent law. The award system apparently did not correspond with the economic and social changes that had been taking place since the late 1970s economic reform. Reflecting the move away from a planned economy to a planned commodity economy, the open-door policy adopted in the late 1970s encourages and promotes foreign trade and investment, private initiatives and decentralization of economic power. The increasing volume and complexity of commercial activity, as well as new transactions, combined with other factors have necessitated the modification of pre-existing regulations and the drafting of new laws.

A series of legislation promulgated shortly after the inception of the open-door policy laid down the legal foundations for the establishment of a modern patent law. The 1982 Chinese Constitution codified the long felt need to encourage scientific development and technological inventions as one of the Four Cardinal Principles of the country.152 "The state is obliged to protect the lawful rights and interests of the private economy (private enterprises and private ownership), the status of which is for the first time constitutionalized as "a complement to the country’s whole economy."153 The

---

152 See the 1982 Chinese Constitutional Law, art. 20.
153 Id. art. 11.
Constitution did make references to property rights, but left the concept to be defined in the General Principles of Civil Law. Article 71 of the 1986 Civil Code stipulated that “property right is the right of the owner to possess, use or dispose of the property.” Article 75 further defined the scope of citizens’ private property to include lawful incomes, houses, chattels, savings and other lawful property, including intellectual property. Thus, the concept of property right - one of the corner stones of western rule of law has been legalized.

However, the ultimate driving force for the making of a modern patent law was primarily an economic one. As a result of the open-door policy, China’s economy has been one of the fastest growing economies in the world. Both individual and the country have evolved from predominately technology consumers to innovative competitors and consumers. As a competitor, China needs to promote and protect its technology and culture. As a matter of fact, due to the lack of a modern patent law in China, more and more Chinese inventions have been the subjects of foreign patent applications without

---

154 See the 1982 Chinese Constitutional Law, art. 13 reads: “State protects its citizens’ lawful income, savings, houses and the ownership of other lawful property.” Citizens’ private property may be inherited according to relevant laws.”
155 See the 1986 Chinese Civil Law, art. 75.
156 Id. art. 94-97.
157 Some Western legal scholars may have suggested that the Chinese notion of legal rights, including property rights, is “softer” than in the West. However, if considered from the development angle and relative idea rather than from the conservative and rigid absolute view, this “soft” perception is rather peripheral. Laws in China are becoming more detailed and individuals are now able to vindicate their legal rights more than ever through the courts or mediation processes.
158 See Edward J. Epstein, 36.
first obtaining patent rights in their homeland. More importantly, as a consumer, China still has to rely largely on foreign investment and technology transfers for some time to come, making indispensable an internationalized patent protection system.

The advent of a modern patent law became crystallized between 1980 and 1983 when China sent dozens of envoys with legal, scientific, and political backgrounds to study extensively the patent laws and practices of various developed countries. On March 12, 1984, the Fourth Session of the Standing Committee of the National People’s Congress passed the PRC Patent Law, which was to become effective on April 1, 1985. The stated purpose of the Patent Law was to facilitate foreign exchange, trade, and investment; stimulate and protect domestic scientific research; encourage the introduction and use of new inventions; and bolster the socialist economy. Thus, the Patent Law explicitly endorsed the economic incentive and development theory of the patent system.

The following is a discussion of the substantive components of the 1984 Patent Law.

**Conditions for patentability:** Patentable inventions, according to their uses, fell into three categories: invention, utility model and industrial design. The 1984 Patent Law set out the statutory requirements for patentability for inventions and utility models,

---

161 Id.
162 Id.
163 Id. at 345.
164 See the 1984 Chinese Patent Law, art. 1.
165 Id. art. 2.
i.e., novelty, inventive step and utility.\textsuperscript{166} Thus, inventions that have been made available to the public in China through use, or inventions that have been published in China or abroad before the application filing date, and inventions that have been the subjects of previous applications in Chinese Patent Office and recorded in the file documents after the publication of the application would lose novelty.\textsuperscript{167} The concepts of an inventive step and utility were also defined in practical terms. In the case of an industrial design, only the novelty requirement is set out: "the design should not be the same as or similar to those published in China or abroad or those publicly used in China before the filing date."\textsuperscript{168} The novelty standard for industrial design is much lower than that required for an invention or utility model.

In contrast to China's previous patent regulations and provisions, the 1984 Patent Law for the first time laid down more detailed and specific requirements for patentability. As to the novelty requirement, the 1984 Patent Law subscribed to a combination of both the absolute and relative novelty standards that are currently employed by the U.S. and Japanese patent systems.\textsuperscript{169} The absolute standard with respect to publication is consistent with the European system, which signifies the trends to harmonization.\textsuperscript{170} The relative novelty standard with respect to public use in China effectively ensures that technologies that are already in the public domain abroad but are highly demanded in China, are still eligible for patent applications in China.

\textsuperscript{166} See the 1984 Chinese Patent Law, art. 22.  
\textsuperscript{167} Id.  
\textsuperscript{168} Id. art. 23.  
\textsuperscript{169} See Chuntian Liu, at 202. See also Harold C. Wegner, at 76.  
\textsuperscript{170} See Harold C. Wegner, at 75-76.
Foreign patent protection provisions: Since China lacked the luxury of spurring economic development solely by utilizing internal resources or strictly controlled foreign investments, the current Chinese Patent Law extends a level of protection to foreign patent holders similar to that of other international models which encourage foreign technology transfer and investment. Thus, unlike the prior patent regulations, the 1984 Patent Law allowed foreigners to apply for patents in China on the basis of national treatment and reciprocity. In cases where the foreign applicant has no habitual residence or business office in China, the applicable law is either the bilateral agreement between the two countries or the international treaties to which both China and the foreign country are a party. If neither the bilateral treaty nor the international treaty is available, the applicable law is the 1984 Patent Law under the principle of reciprocity. In cases where there are conflicts between an international agreement and the Patent Law in terms of substantive provisions, the international treaty overrides inconsistencies in the Patent Law as Chinese laws draw on the Continental European or Civil Law system. The Patent Law also required foreign patent applications to be executed by an authorized Chinese patent agent on the foreigner’s behalf.


See the 1984 Chinese Patent Law, art. 18.

See the 1986 Chinese Civil Law, art.142, which stipulates that any foreign factor involved civil suit should follow the Civil Code provisions; if the Chinese civil law conflicts with relevant international treaty to which China is a party, the former shall prevail, subject to reservations made by China. If both the Civil Code and relevant international treaty are silent on the issue in the case, international customary rules shall apply.

See the 1984 Chinese Patent Law, art. 19.
**Exclusive rights of the patent holder:** The 1984 Patent Law defined the patent rights by exclusion. Article 11 read: “Subject to article 14, without permission from the right holder, any other unit or individual is prohibited from using the invention, i.e., making, using and selling the patented product or process for the purposes of manufacture and other commercial activities.” Article 14 empowered the State to appropriate and exploit any patent of a “Chinese individual or collective entity, which is of great significance to the interests of the state or to the public.” Such reference had been characterized as an exception to the right of sole possession typically given to patent holders by other legal systems, and had caused some initial but unwarranted concerns among foreign investors. As there is no absolutely exclusive right, it is even a common practice in developed countries that where the public interest overrides private interest, the patentee must transfer an interest in the patent to the government by operation of law. Take Canada, under the Canadian patent law, the Government of Canada may at any time use any invention by paying such reasonable compensation as the Commissioner of Patents may determine, subject to an appeal to the Federal Court. This right is unqualified and unrestricted.

---

175 See the 1984 Chinese Patent Law, art. 11.
176 Id. art. 14.
178 See Harrington, 348 & 354.
179 See the Patent Act of Canada, s.19. See also George Francis Takach, Patents - A Canadian Compendium of Law and Practice, (Jurilber, 1993) at 112.
180 See the Patent Law Revision (1976) at 10.
181 See George Francis Takach, at 112.
Duration and subject matter: Slightly deviating from the international standard of a 20-year patent term, the 1984 Patent Law prescribed a shorter term of 15 years for inventions and 5 years for utility models and industrial designs. At the heart of the issue is the dilemma between the need to encourage inventions and innovations on the one hand and the need to promote technology diffusion on the other hand. The relatively short term of patent protection provided in China indicated China’s emphasis on the effect of technology diffusion, which is perceived to be more beneficial to the society as a whole in the long run.

On the issue of unpatentable subject matter, like previous patent laws and regulations, the 1984 Patent Law listed foods, beverages, flavourings, pharmaceutical products, substances made by chemical processes and animal and plant varieties as unpatentable subject matters. Due to either the special nature of pharmaceutical, food and chemical industries or any entailed ethical considerations, like many other developing countries, China perceives weak protection in such sectors as instruments to avoid restrictions in “the supply of essential products,” especially taking into account of its huge population.

183 See the 1984 Chinese Patent Law, art. 45.
184 Id. art. 25.
185 Indira Gandi said: “The idea of a better-ordered world is one in which medical discoveries will be free of patents and there will be no profiteering from life and death.”
Compulsory licenses and protection of patent right: Compulsory license constitutes an integral part of the Chinese patent system, as it was traditionally perceived to be a powerful tool to prevent warehousing of patents. Accordingly, the patent holder was obliged to employ the invention in China either by himself or by a third party.\textsuperscript{187} Failure to fulfill such obligation would subject the patent to a possible compulsory license - a license authorized by the competent authorities. In order to invoke compulsory license, certain conditions must be met: (1) the compulsory license is limited to inventions and utility models, (2) the patent holder does not have reasonable ground(s) not to employ the invention in China for more than three years from the issuing date, and (3) grant of the compulsory license must be initiated at the request of a third party who had been unable to get a license from the patent holder on reasonable terms.\textsuperscript{188}

With respect to infringement, the Patent Law did not directly define what constitutes infringement, but it did set out the scope of protection of the patent right. For inventions and utility models, the scope of protection is confined to the patent claims and reference should be made to the descriptions and drawings (if there are any) in interpreting the claims.\textsuperscript{189} So it follows that if the impugned act falls within the claims, the act constitutes infringement (literal infringement). If the act does not literally fall within the claims, but the defendant has taken the principle and substance of the invention, it also constitutes infringement (substantial infringement). Consistent with international practice, the Patent Law excluded the following activities from the scope of protection.

\begin{itemize}
\item See the 1984 Chinese Patent Law, art. 51.
\item \textit{Id.} art. 52, 54.
\end{itemize}
protection. In other words, the following activities did not constitute infringement: (1) exhaustion of rights: any dealing with the product after the first sale by the patentee, (2) dealing with and not knowing the product was made without the permission from the patentee, (3) prior user's right where the prior user had already made or used the patented article before the patent filing date, the prior user can continue to make or use the article within the pre-existing scope, and (4) state sovereign immunity.  


If the economic reform is the internal forces that motivated the Chinese government to modernize and internationalize its IPR regime, the Sino-American IPR negotiations in the late 1980s and early 1990s represent the external events that pressured China to bring its IPR regime further in line with the international norms.

Before the TRIPS Agreement was concluded, the U.S. response to the inadequacy of existing international arrangements regarding IP protection was either unilateral action or bilateral agreements. 191 The Omnibus Trade and Competitiveness Act of 1988 has inscribed the protection of IPR as one of the principal priorities of the U.S. trade policy. The mandate to negotiate improved protection in other countries is supported by the

189 See the 1984 Chinese Patent Law, art. 59.
190 Id. art. 62.
statutory authority of Section 301, which permits the American government to use trade measures as leverage to achieve certain minimum standards of world-wide protection.\(^{192}\)

In the last fifteen years there has been a rapid expansion of trade between the United States and China. According to the Office of the U.S. Trade Representative (USTR), trade between the United States and China has increased from $2.4 billion in 1979 to $33.2 billion in 1992: an average of more than 100 percent annually for the past 13 years.\(^{193}\) Currently, the United States runs the second largest trade deficit with China, which approached nearly $30 billion in 1994.\(^{194}\) "This has been a cause for concern."\(^{195}\) The U.S. trade officials estimated that the total annual loss due to industrial piracy and patent infringement by the Chinese approached $400 million.\(^{196}\) In separate analyses performed in 1988, the U.S. International Trade Commission and the U.S. Department of State also found significant problems with the enforcement of U.S. IPR by China, which were causing a deteriorated effect on U.S. trade.\(^{197}\)

The efforts of the U.S. government and industry were concentrated on demonstrating high levels of IPR-related losses for U.S. enterprises.\(^{198}\) However, it should be noted that the nature of these studies such as the International Trade Commission's 1988 investigation into IPR enforcement in China.

\(^{195}\) Id.
Commission report concluding that U.S. industries lost in the order of $43 to $61 billion in 1986 from IPR misappropriations were not designed as scientific exercises.\textsuperscript{199} Moreover, the bilateral negotiations between the two countries over IPR issues were clearly not pursued in a vacuum.\textsuperscript{200} Thus a balanced understanding of the issue has to be put in a much broader context of China's bid to join the WTO organization.

Since 1989 when China was placed on the initial Priority Watch List, the USTR negotiators had sought, among other things, improved and adequate patent protection.\textsuperscript{201} The official U.S. stand was that China was the only major trading partner of the United States that offered neither product patent protection for pharmaceuticals and other chemicals.\textsuperscript{202} As a result, piracy of all forms of IP was widespread in the PRC, accounting for significant losses to U.S. industries.\textsuperscript{203} The U.S. demanded that China act immediately to correct the current situation or face punishment - trade sanctions. In response, the Chinese government emphasized that IP rights should bear a direct relationship to the level of economic development of the country and that the U.S. should not seek to impose its own standards on countries unable to bargain on an equal economic footing with the United States.\textsuperscript{204}

\textsuperscript{199} See Frederick M. Abbott, "The International Intellectual Property Order" 473.
\textsuperscript{200} See Myles Getlan, the Future of Section 301, 193.
\textsuperscript{202} “China Calls Special 301 Designation Unacceptable, Says Trade Will Suffer” (1991) 5 World Intellectual Property Report (BNA) 145. (China's Reaction to its designation as a Priority Foreign Country)
\textsuperscript{203} Id.
\textsuperscript{204} Id. 146.
Foreign legal scholars and experts on China issues argued that improved IPR would benefit China economically. They observed that "deficiencies in the Chinese system for protection of IP have affected a variety of foreign business transactions with China." Specifically, "licensing transactions for the transfer of technologies involving pharmaceutical and agricultural chemicals have been hampered by the absence of patent protection." With the foreign investment and technology transfers playing a "substantial" leading role in China's economic development, it is perceived that the absence of adequate patent protection would affect and eventually slow down the process. Moreover, at the international level, adopting a system that is most compatible with China's major trading partners' would inevitably draw China further into the global market.

However, issue remains that whether or not protection of IPR encourages foreign direct investment (FDI). A recent study produced by the U.N. Transitional Corporations and Management Division concluded that there is little evidence of any correlation between high levels of IPR protection and high levels of FDI. On the other hand, there has been a significant correlation between the USTR's list of worst IPR violators and the highest levels of U.S. FDI. The countries with the weakest levels of IPR protection -

\[206\] Id.
\[207\] For a full understanding of the nature of the foreign investment law in the PRC, see Pitman B. Potter, "Foreign Investment Law in the People's Republic of China: Dilemmas of State Control" (March 1995) The China Quarterly 162.
\[209\] Id. 475.
the People’s Republic of China, Taiwan, Brazil, Argentina, Thailand, to name a few - over the past decade have routinely been the recipients of the largest net FDI inflows.210

As far as Chinese IPR is concerned, although “progress towards adequate protection has been made in fits and starts and with apparent reluctance,”211 both the resulting 1989 and 1992 MOUs evidenced the level of commitment by the Chinese government to an internationalized IPR system.

The 1989 MOU contained a general provision regarding patent protection which basically called for amendments to the 1984 Patent Law with respect to both the scope of the protection and the duration of the patent right. It also required that the amendments be submitted to the State Council for examination by the end of 1989.212 As the first Understanding between the two governments on the IPR issue, the 1989 MOU provided a basis for future negotiations and cooperation.213

The 1992 MOU,214 a result of the USTR’s listing China as a priority country in 1991, exclusively deals with the amendments to China’s Patent Law. In comparison with the relatively general provisions regarding patents in the 1989 MOU, the provisions contained in the 1992 MOU are far more extensive and specific. The amendments, which were passed in the 27th meeting of the Standing Committee of the 7th National People’s

211 See Alans Gutterman, 372.
212 See Pitman B. Potter, “Improved IPR” 28.
213 Id.
Congress in September 1992 and which became effective January 1, 1993, affected nineteen of the original sixty-nine articles of the Patent Law. In general, the amendments followed the letter of the compromises ironed out in the MOU and complied with the spirit of the MOU to an extent which would have been unthinkable to the Chinese leadership even ten years ago.

**Patent subject matter:** The patent subject matter is one of the major issues in the MOU. The 1992 MOU requires that patents be available for any chemical inventions, including medicine and agricultural substances, whether products or processes. The change to the original article went further than that required. Article 25 of the new Patent Law eliminated from the list of unpatentable subject matters not only medicines and chemical products but also food, including food flavors and drinks. The provisions for patentability of drugs, food and other chemicals for agricultural use were major concessions by China, given its potential impact when taking into account China’s actual economic development level and the government’s long proclaimed social welfare goals. On the other hand, this is also one of the areas that highlights “China’s pragmatic motivation and desire for a workable, rather than theoretically ideal law.”

This is an ideology shift to a more liberal state thinking which emphasizes the

---


216 See Harrington, 359.

217 See the 1992 MOU, article 1(1).

218 See the 1992 Patent Law, art. 25. The Decision, art. 2.
maximization of the liberty of individual citizens, encourages self-reliance, and adopts a more or less neutral stance with regard to permissible patterns of social life.

**Compulsory licensing:** The new Patent Law deletes the previous provision that the patent holder has the obligation to employ his invention in China and the reference to three years non-use which may subject the patent to a compulsory license. The amendments incorporated the concept of “reasonable time,” that is a reasonable period of time must elapse before the applicant can successfully apply for a compulsory license on the basis of failure to make a contract with the patent holder on reasonable terms. Moreover, the applicant is required to provide evidence of such. A compulsory license may also crystallize in the event of a state emergency or in the public interest. For compulsory license, a series of more detailed and stringent provisions were set out in the 1992 MOU. Theoretically, U.S. patent holders may resort to these regulations to support their cases.

Other substantive amendments to the 1984 Patent Law include: (1) extending the duration of the patent right from 17 years to 20 years for inventions and to 10 years for utility models and industrial designs, (2) deleting the phrase which tied the exclusivity of a patent right to the state or public interest and substituting it with “except as provided

220 See Harrington, 360 at footnote 175.
221 See the 1992 Chinese Patent Law, art. 51.
222 *Id.* art. 54.
223 *Id.* art. 52.
224 *Id.* art. 45. The Decision, art. 11.
by law"\(^{225}\) - "indicating a weakening of the power of the state authorities"\(^{226}\) and (3) adding a new right for patent holders - the import right which prevents others from importing the patented products or products directly obtained by applying the patented processes.\(^{227}\)

Under Article 1 (1)(d)(i) of the 1992 MOU, Chinese patent law shall provide that "Patent rights shall be enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced." However, it is ironic that it is U.S. law and practice under 35 U.S.C. S.104 (1988) that discriminates on the basis of the country of invention for the purposes of establishing the date of invention and the first inventor.\(^{228}\) If a U.S. inventor can show conception and reduction to practice in the U.S. prior to the foreign inventor's Paris Convention priority date, which is the filing date in the country of origin, the U.S. applicant could obtain the U.S. patent whereas the foreign inventor is proscribed from establishing a date of invention based upon acts which occurred outside the United States. "This is based upon the strict prescription against establishing priority based upon foreign activity that stands naked under 35 U.S.C. S.104."\(^{229}\)

\(^{225}\) See the 1992 Chinese Patent Law, art. 11.
\(^{226}\) See Harrington, 361.
\(^{227}\) See the 1992 Chinese Patent Law, art. 11. The Decision, art. 1.
\(^{228}\) See J. H. Reichman, "Universal Minimum Standards" 352.
\(^{229}\) See Harold C. Wegner, at 61.
3. Summary

The history of patent protection in China is basically a note of China’s social and economic development, which illustrates that patent regulations and laws have evolved primarily as instruments of national economic policies. Although the idea of a patent in China can be traced back to early ages, the system was never institutionalized until the late 1970s’ economic reform, which officially ended the self-imposed and externally enforced isolation of Maoist China and legalized private economy as well as private ownership. The open door policy led China into an era of internationalization and integration with the rest of the world, either economically or legally.

Thus, marked by the enactment of the 1984 Patent Law, the history of patent protection in China has begun a new period - a period of integration and harmonization with modern patent practices. The process was only to be accelerated by Sino-American IPR negotiations that have further pushed the level of patent protection provided in China to the international standards. However, this integration or harmonization process must correspond with the relevant economic development that has been taking place in China, as an adequate and effective patent system must provide for meaningful enforcement which is in turn backed by an powerful and capable economy. Therefore, it remains to be seen how China’s society and its mass population can cope with such Western precepts of property right and legal system.

With respect to the rights theory, current Chinese patent law does not explicitly indorse any natural rights theory. However, there has been a wide spread acceptance of
the natural rights theory in academic field. It has been long accepted that a person has natural property rights to his mental labor - "intangible commodity that has value and utility value according to the Marxism's political and economic science." \(^{230}\)

### B. China's Involvement in International Conventions for Patent Protection

China's involvement in international conventions for patent protection, as would normally be reprehended, is much affected by its foreign policy goals and perceptions of the international strategic, economic and ideological environment. Before the People's Republic was founded in 1949, China had experienced more than a century of Western imperialism. The history of modern China, as succinctly put by Mao Tse-Tung, "is a history of imperialist aggression." Foreign relations, including economic ones, during this period has been almost entirely dependent upon and reactive to the initiatives of external powers. \(^{231}\) Even after the establishment of a sovereign state, China was still not offered an equal footing in international affairs. \(^{232}\) From 1949 to the late 1970s, China went through a period of self-imposed and externally enforced isolation. \(^{233}\) During this period, there was an extreme dearth of scientific or economic relations with the outside world. China remained self-confined until the late 1970s when the economic reform was initiated, \(^{234}\) which opened China up to the international community. Since then China has rapidly embraced a wide range of international relations, including membership in most

---

\(^{230}\) See the Blue Paper, at 11.

\(^{231}\) See Gittings, *World & China*, at 10.

\(^{232}\) *Id.*

\(^{233}\) See James V. Feinerman, "Chinese Participation in the International Legal Order: Rogue Elephant or Team Player?" (March 1995) The China Quarterly 186.

\(^{234}\) Deng xiaoping was named twice Time Magazine 'man of the year' in 1978 and 1985 respectively.
international organizations. To accommodate these changes, many newly enacted laws contain provisions that protect legitimate foreign interests in China.

1. The Renewed Sino-American Commerce and Navigation Treaty

The earliest bilateral treaty that dealt with foreign patent protection dated back to 1903 (the 29th year of the Qing Dynasty) when the Sino-American Continuing Commerce and Navigation Treaty was signed. Article 10 of the treaty reads:

The American government permits registration of inventions by Chinese citizens. An invention certificate will be issued to ensure the exclusive use of the invention. The Chinese government shall establish a special department solely responsible for invention affairs. The department shall also give monopoly protection to Americans who have already obtained an invention certificate in America, and who have sold products incorporating the invention in China, provided that a certain prescribed fee is paid and that the American invention does not offend previous Chinese inventions. The period of protection should be the same as that given to a Chinese citizen.

By virtue of this article, the Qing government recognized the extraterritorial force of the American invention certificates with itself deprived of the examination and approval right. While on the part of the Chinese people, it was literally impossible for any Chinese invention, if there were any - given the extremely poor economic conditions in China at the time, to apply for an invention certificate in America. The treaty was nothing but a merely meaningless legal form for Chinese citizens. By mandating

---

236 See Jiafu Wang & Shuhua Xia, at 50.
substantial protection for American certificate holders, the treaty effectively helped American technologies and products penetrate and control the Chinese market.\textsuperscript{238}


With an aim to harmonize Chinese patent law with the international standards, China further strengthened its contact and co-operation with the World Intellectual Property Organization (WIPO) in the early eighties. Such inter-exchange was instrumental in exposing the making of the 1984 Patent Law to the international standards at its inception. On March 19, 1985, only one year after the enactment of the Patent Law, China acceded to the Paris Convention.

Joining the Paris Convention ensured reciprocal treatment, national treatment and priority for Chinese foreign patent applications, especially in the fields of electrical equipment, machinery, and chemical products.\textsuperscript{239} Accession to the Convention not only made foreign businesses more confident about Chinese patent system, but also simplified the process of obtaining foreign patent protection for Chinese patents. Since China is not a WTO member yet, the Paris Convention is still one of the major international treaties which governs Sino-foreign related patent protection issues.

Although the Paris Convention established the priority principle in substance, it did not solve the problem of international patent filing procedures. To fill the gap, the

\textsuperscript{237} See Jiafu Wang & Shuhua Xia, at 50.
\textsuperscript{238} Id.
Patent Co-operation Treaty (PCT) was signed in 1970. The PCT established a basic application format that is acceptable to all patent offices of the signatory states and facilitated the effective filing of patent applications at designated patent offices using a single PCT application filed with any one of the patent offices.240

The design of the PCT enables signatory states to participate irrespective of their substantive patent law by dividing the prosecution procedure for a PCT application into two phases: an international phase and a national phase.241 The international phase consists of the actual PCT application filing, the PCT search, and the PCT examination. The international phase is governed by the PCT provisions and is administered by WIPO. The national phase consists of the PCT application at the various designated patent offices according to the individual national law. The individual offices are free to decide whether to consider the results obtained by the PCT search and the PCT examination. The principle of the PCT is that “The ultimate decision whether to grant a patent lies with each of the designated states... The international search is not binding for the designated patent offices nor is the preliminary international examination binding for the elected patent offices.”242

In recognition of the scope of protection available in China under its newly amended patent law, China’s accession to the PCT was unanimously approved at a

---

241 Id. 616.
242 Id.
plenary session of the 20th General Assembly of the PCT in September 1992. China became a member country on January 1, 1994. In March 1993, China promulgated the Rules for Implementing PCT. Thus, the Chinese language was designated as one of the official languages for filing patent applications through the PCT and the Chinese Patent Office was granted the status of receiving office, designated office and elected office and given the authority for international searches and international preliminary examinations.

3. Summary

China’s increased participation in international patent conventions in the post-Mao era has further integrated its patent law and practice into international practice. Being a member of the Paris Convention and by virtue of the national treatment principle, China does not have to negotiate bilateral patent protection agreements with each country in the world. The Priority principle also ensures the advantages of an earlier application filing date in China. Joining the PCT provided further co-operation with other patent systems in the world, especially in the area of patent search and examination.


See (1993) 75 Journal of the Patent and Trademark Society 354, noting accession of China to PCT.
IV. INTERNATIONALIZATION OF PATENT LAW IN THE POST-DENG ERA

From the announcement of the 1984 Patent law to the current 1992 Patent Law, it is not deniable that China has made enormous progress and achievement in internationalizing its patent law and practice, whether hard-pressed by the changing domestic economic conditions or the U.S. trade sanctions. However, an examination of the Chinese patent law and practice in light of the TRIPS Agreement would reveal that more effort is needed on the part of the Chinese government. Although China is not a WTO member yet, the TRIPS standards represent a culmination of China's effort to bring its patent system into compliance with the international norms. Undoubtedly, this is the primary task facing China in the field of IPR in the post-Deng era. The following is a comparative examination of the Chinese Patent law and practices in accordance to the standards laid out in the TRIPS Agreement.

245 Dr. Arpad Bogsch, Director General of WIPO, noted that China had modernized its patent law at a speed unmatched in the history of IP protection. See the "Briefing Material on the Current Status of Chinese Intellectual Property Law" the White Paper by the State Council, China Legal Daily (17 June 1994)


247 It has been more than ten years since China made its official application for the resumption of GATT Contracting Party status. China has since made tremendous efforts in transforming its trade structure in accordance with the GATT standards. The issue of China's WTO membership is beyond the scope of the article, but at least it can be said that given the economic impact China has over the world market, it is only a matter of time before China joins the world trade club. However, the prospect of China's WTO membership has been over-shadowed by the off and on trade wars between China and U.S. over IP protection. According to the U.S. term, "China must take a number of additional measures to bring its IPR regime into compliance with the requirements of the TRIPS Agreement." and "those requirements will be considered on a bilateral basis and in the context of China's wish to accede to the WTO. See U.S./China Intellectual Property Agreement and Accession to the WTO, (9 March 1995) hearing before the Subcommittee on Trade of the Committee on Ways and Means House of Representatives, One Hundred Fourth Congress, follow-up questions on China issues, question 2, at 34.
A. Minimum Standards

Like the pre-existing international IP conventions, the TRIPS Agreement is a minimum standards agreement. It leaves members free to provide more extensive protection of IP. Members may do so for purely domestic reasons or because they conclude international agreements in this regard, whether bilateral, regional.248

The substantive standards concerning the availability, scope and use of patent rights are laid down in Part II of the TRIPS Agreement. The TRIPS Agreement sets out these standards by first requiring compliance with the substantive obligations of the Paris Convention in its latest version.249 All the substantive provisions of the Paris Convention are incorporated by reference and thus become obligations under the TRIPS Agreement.250 Second, the TRIPS Agreement adds a substantial number of additional obligations with respect to matters where the pre-existing conventions were silent or were perceived as inadequate.251

1. Patentable subject matter

Generally speaking, the question of what is a proper subject matter for a patent arises for judicial consideration in essentially two different situations. In the first place, the Patent Office may reject an application for a patent on the ground that it relates to a subject

---

248 See the TRIPS Agreement, art. 1 (1). See also Adrian Otten, Director and Legal Affairs Officer of the Intellectual Property and Investment Division respectively of the World Trade Organization, “Compliance with TRIPS: the Emerging World View” (May 1996) 29 Vanderbilt Journal of Transnational Law 394.

249 See the TRIPS Agreement, art. 2(1).

250 See Adrian Otten & Hannu Wager, 396.

251 Id. 397.
matter that is unpatentable. In such a case, the applicant has a recourse of appeal to the court regarding the correctness of the decision by the Patent Office. If, on the other hand, the Patent Office considers the subject matter to be patentable, there will be a grant of a patent. Once the patent has been granted, the validity may still be attacked on the ground that the patent covers unpatentable subject matter either by an interested party or by a defendant who counter claims as a defense.252

The developed countries scored a major achievement with regard to the eligibility of the patent subject matter.253 Almost anything made under the sun is patentable. Article 27 of the TRIPS Agreement stipulates that patents shall be available for any inventions in all field of technology, whether products or processes, provided that they are new, involve an inventive step and are capable of industrial application.254

There are exceptions to the patentable subject matters, especially when public interest is involved. In such cases, governments intervene to reserve a monopoly position.255 The TRIPS Agreement incorporated this rationale by requiring that members may exclude from patentability inventions which are necessary to protect ordre public or morality, including the protection of human, animal or plant life or to avoid serious

---

254 See the TRIPS Agreement, art. 27(1).
255 See Bryce Mackasey, Patent Law Revision (Canada), (1976) at 10.
prejudice to the environment, provided that such an exclusion is not made merely because the exploitation is prohibited by domestic law.\textsuperscript{256}

The legal ramifications of such public interest exception are manifold. On the face of it, as long as one can demonstrate that the exclusion of certain patentable subject matter is made based on considerations of public order or morality, then such exclusion may be legitimate by virtue of Article 27(2) of the TRIPS Agreement. Clearly the public interest exception provision is important for developing countries, especially for Least Developed Countries (LDCs). For example, pharmaceuticals are a basic need in many LDCs and their costs are exorbitant. For this reason, many developing countries and some industrial countries do not offer patent protection to these life necessities.\textsuperscript{257} Indeed, some industrial countries have only recently introduced patent protection in pharmaceuticals and chemicals after ensuring the development of their own domestic industries.\textsuperscript{258}

In determining whether certain exclusion is made based on considerations of public order or morality, although the TRIPS Agreement adopts an objective approach, that is, such exclusion is not made merely because the exploitation is prohibited by domestic law, there is no consensus on what constitutes “ordre public” and “morality.” Their meanings may vary considerably from one country to another and even within one jurisdiction, one may find that those legal concepts are changing constantly. Take Canada for example, inventions that have an illicit object in view are not patentable, the same is

\begin{footnotes}
\item[256] See the TRIPS Agreement, art. 27(2).
\end{footnotes}
true in Britain. As late as the mid 1930’s, it was held in England that a patent for a contraceptive should be refused; but one may legitimately doubt whether in this day and age, the prevention of conception would be regarded by any reasonable judge as an "illicit" object. As a result, it may be difficult or even virtually impossible to justify any exclusion based on the public interest exception provision.

However, exclusion is expressly allowed with respect to (1) diagnostic, therapeutic and surgical methods for the treatment of humans, animals and plants, (2) essential biological processes for the production of plants and animals. However, microorganism and non-biological and microbiological processes are general patentable subject matters. With respect to plant varieties, the Agreement requires member states to provide protection either by patents or by an effective *sui generis* system or by any combination thereof.

The current Chinese Patent Law protects three kinds of inventive creations: invention, utility models and industrial designs. Invention is defined in the Detailed Rules for Implementing Chinese Patent Law (Detailed Rules) as any new product, process or improvement thereof. Utility model, also known as the "petty patent," is defined as any new and useful shape or structure or the combination of shape and structure of a product. According to this definition, a utility model patent only applies to products that have three

---

258 See Frederick S. Ringo, “The Legal Implications for Sub-Saharan Africa 123.
261 See the TRIPS Agreement, art. 27(3)(a)(b).
262 *Id.* art. 27(3)(b).
263 See the 1992 Chinese Patent Law, art. 2.
dimensions. Therefore, all gas, liquid and powder are excluded from the utility model category for lack of definite shape, as well as two-plane figure designs for the lack of three dimensions (which in fact are the subject matters of copyright). Industrial design means features of shape, pattern or color and any combination of these features which, in a product or article, appeal to the eye and are capable of industrial use. Industry design patents must be associated with an article or product. The difference between the industrial design patent and the utility model patent is that the former emphasizes the ornamental features while the latter focuses on the utilitarian function.

Under the Chinese Patent Law, the followings are not patentable: (1) scientific discoveries, (2) methods or techniques for mental activity, (3) processes or methods of diagnosis and medical treatments, (4) animal and plant varieties, (5) substances obtained by means of nuclear transformation and (6) subject matters that are illegal or contrary to social morality or the public interest.

As with the TRIPS Agreement, Chinese patent law lacks specific definition for public interest. It has been suggested that in considering the issue, the Chinese Patent Office and courts will probably give certain factors such as the purposes of an invention more weight than other factors on a case-by-case basis.

See the 1992 Chinese Patent Law, art.25.

Id. art. 5.
With respect to patent subject matter, the Chinese patent law confirms to the TRIPS standards except plant varieties. The TRIPS Agreement requires that members provide for protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof.\(^{269}\) As of the date of writing, China does not have in place a separate law or any regulation that protect plant varieties. Nevertheless, China may be reluctant to grant patent monopoly to plant varieties, given the fact that more than 80 percent of its mass population are peasants who rely on very limited parable land. In such a case, China may have a public interest exception case since agriculture is such a vital sector in China's socio-economic development.

The Patent Law adopted the absolute novelty standard with regard to publication. Thus, any domestic or foreign publication of the same invention or utility model would bar the patent application for lack of novelty. With respect to public use, only public use in China or publicly known in China would bar the patent application. A patent application can also fail on the ground that it has been the subject of a previous application that was recorded in the relevant application documents published after the filing date.\(^{270}\) Public exposure of the inventions at an international exhibition sponsored or recognized by the Chinese government, or at prescribed academic or technological meetings, or by any other persons without consent of the applicants, would not bar the patent applications if made within 6 months after such public exposures.\(^{271}\)

\(^{269}\) See the TRIPS Agreement, art. 3(b).
\(^{270}\) See the 1992 Chinese Patent Law, art. 22.
\(^{271}\) *Id.* art. 24.
2. **Bundle of exclusive rights**

The TRIPS Agreement prescribes a universal context for patent rights for member states. Where the subject matter of a patent is a product, it is the patent owner's exclusive right to prevent any third party from making, using, offering for sale, selling, or importing the patented product without obtaining his or her consent. Where the patent subject matter is a process, the patentee has the right to prevent third parties from using the process, and from making, using, offering for sale, selling, or importing the product obtained directly by that process without obtaining his or her consent. Moreover, a patent owner has the right to assign, or transfer by succession the patent and to enter into licensing contracts.

According to Article 28(1) (a) of the TRIPS Agreement, a patentee’s bundle of exclusive rights also includes the right to supply the market with imports of the patented products. As a result, “logically, the obligation to work patents locally under Article 5A of the Paris Convention appears overridden by the right to supply imports, at least in principle.” Thus, armed with such exclusivity given to a patent, an innovator is more than ever before to be able to gain entry into a foreign market with a new technology embodied in new products and to develop market share during the period when it is sheltered by patent protection.

---

272 See the TRIPS Agreement, art. 28, 1(a).
273 Id. art. 28,1(b).
274 Id. art. 28,1(c).
276 See Bruce A. Lehman, assistant secretary of Commerce and Commissioner of Patents and Trademarks, remarks before the American Bar Association Intellectual Property Section at the American Bar Association annual meeting (10 August 1993), reprinted in (October 1993) 75 Journal of the Patent & Trademark Office Society 773.
Nevertheless, the fact remains that few foreign patent holders employ their patents in developing countries,\textsuperscript{277} thus calling into question the reward hypothesis, which seeks to justify the conferral of a legal monopoly on the basis that research and development would not otherwise occur without a guaranteed remuneration. It is unlikely that the prospect of patent protection in developing countries acts as an incentive to transitional corporations to engage in research and development tailored to the needs of those countries.\textsuperscript{278} Some empirical data have suggested that countries with strong patent protection have been receiving increasing shares of research and development expenditures from U.S. pharmaceutical firms.\textsuperscript{279} However, the proposition that there was a causal link between a strong patent protection regime and the increasing flow of foreign capital investment does not reconcile with the developed countries' fierce insistence on the import right, which effectively relieves the patentee's burden of working his or her patent locally.

Unlike many developing countries' practices, the 1992 Chinese Patent law deleted the previous provision that obligated the patentee to work his or her patent in China and empowered the patentee with the exclusive import right.\textsuperscript{280} Such relaxation or compromise highlights the ideology shift of the Chinese government and its commitment to a truly internationalized patent system. Under the 1992 Patent Law, a patentee has the exclusive right to exploit the patent, i.e. without his permission, no entity or individual

\textsuperscript{277} See Michael Blakeney, \textit{Legal Aspects of The Transfer of Technology to Developing Countries}, (Oxford: ESC Publishing Ltd., 1989) at 81.
\textsuperscript{278} \textit{Id.}
\textsuperscript{279} See Kirstin Peterson, "Recent Intellectual Property Trends in Developing Countries" (1992) 33 Harvard International Law Journal 281.
may, for production or a business purpose, make, use or sell the patented product or patented process except as provided by law.\textsuperscript{281} Accordingly, any person who performs these acts infringes the patent.\textsuperscript{282} Moreover, in deciding whether a specific act infringes the patent, the Chinese courts are required to refer to the patent claims and to the specifications to define the scope of protection.\textsuperscript{283} These provisions indicate that Chinese courts adopt both the literal and substantive infringement methods prevalent in developed countries.\textsuperscript{284}

Consistent with international practice, Chinese Patent law excludes the following acts from being construed as infringement:

- **Scientific and experimental use** where any person uses the patent solely for the purposes of scientific research and experimentation.\textsuperscript{285} For a patented product, the exception is confined only to the act of using a finished product, excluding the act of making or selling the product.

- **Exhaustion of rights** any act of dealing with the patented product which has been put on the market by the owner of the patent, or with his express consent.

\textsuperscript{280} See Kirstin Peterson, 282.
\textsuperscript{281} See the 1992 Chinese Patent Law, art. 11.
\textsuperscript{282} Id. art. 60.
\textsuperscript{283} Id. art. 59.
\textsuperscript{284} The determination of literal infringement is a two-step process. First, the scope of the patent claims must be determined by a study of the relevant patent documents. Second, the claim must be "read on" the accused structure or process. The doctrine of equivalents was judicially devised to do equity. It was established to make it impossible for the unscrupulous copier to make insubstantial changes to a device that, although adding nothing, would be enough to avoid infringement of a patent. So, it is infringement of a patent if the accused infringer's method or device employs substantially the same means to achieve substantially the same results in substantially the same way as claimed in the patent at issue.
insofar as such an act is performed after that product has been so put on the market. This provision provides that the first sale of a product by the patentee exhausts the patent right.

- **Prior user rights** where, before the date of filing of the application for a patent, any person who has already made the identical product, used the identical process, or made the necessary preparations for its making or selling, continues to make or use it within the original scope only.

With respect to the issue of innocent users, although the TRIPS Agreement does not have any specific provisions, the established international practice is that neither knowledge of the patent nor intent to infringe is a necessary element to the establishment of infringement. On the contrary, Article 62(2) of the 1992 Patent Law stipulates that the act of any person who uses or sells a patent product without the knowledge that the product was made or sold without authorization of the patent holder does not constitute infringement. This provision undermines the exclusivity of the patent rights to an extent that the entire patent system might be jeopardized, absent of a provision to the effect that the issuance of a patent is deemed as a constructive notice to the public in China.

---

286 *Id.* art. 62(1).
287 *Id.* art. 62(3).
3. Compulsory licenses

The general theory regarding compulsory licenses is that when the patentee misused or abused his patent rights, the public interest pre-exempts the exclusive rights of the patentee. Accordingly, the competent authority may order the exploitation of the patent by a third party without the consent of the patentee. The interface of patent law and competition law requires the patentee not to misuse or abuse his or her patent rights. The legal consequences of patent abuse in some countries are affirmative defenses in patent infringement lawsuits or potential patent anti-competition litigation. One type of patent abuse is the refusal to grant license on reasonable terms. In such cases, it is in the public interest that compulsory license be granted at any time after the expiration of usually three years from the patent granting date at the request of any person interested.

Although the compulsory license mechanism is available in both developed and developing countries, developed countries' legislation tends to emphasize the exceptionality of the mechanism, that is, compulsory license should be invoked only in exceptional circumstances where patent abuses can not be dealt with through anti-trust

---

289 See the TRIPS Agreement, Chapter IV, A (1).
291 Id.
292 The meaning of "abuse" is controversial. In U.S., mere refusal to license cannot constitute abuse and Congress explicitly recognizes this under s 271(d)(4). See David Bender, at 335. Most other countries consider the doctrine of abuse applicable if a patentee refuses to license on reasonable terms. The TRIPS Agreement adopts the broader concept of abuse, see J. H. Reichman, "Universal Minimum Standards" 355.
293 See the Patent Act of Canada, art. 65. The Chinese Patent Law, art 51. The TRIPS, art. 8(2) & 31(b).
and competition laws.\textsuperscript{294} However, developing countries are extremely concerned with the possibility of patent warehousing, especially taking into consideration of their generally dependent economies and the fact that few foreign patents are exploited locally. As a result, many compulsory license provisions in developing countries lack detailed regulations regarding the individual merits of each compulsory license emphasized by the developed countries.

The TRIPS Agreement empowers the member states to determine what triggers a compulsory license.\textsuperscript{295} In principle, both the public interest exception and measures to prevent abuse, respectively stipulated in Article 8(1) and 8(2) of the TRIPS Agreement, could justify resorting to compulsory licensing.\textsuperscript{296} However, the TRIPS Agreement requires that in the event that a compulsory licence is granted, the competent authority respect the legitimate interests of the patent owner.\textsuperscript{297} On balance, such requirements as articulated in Article 31 help to insulate foreign patentees from confiscating practices that earlier proposal to reform Article 5A of the Paris Convention appeared to tolerate.\textsuperscript{298}


\textsuperscript{295} See the TRIPS Agreement, art. 31 reads: “Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder...”

\textsuperscript{296} See J. H. Reichman, “Universal Minimum Standards” 356.

\textsuperscript{297} Part of Article 31 of the TRIPS Agreement reads: (1) authorization of compulsory license shall be considered on its individual merits, (2) the right holder shall be notified as soon as reasonably practicable, (3) the scope and duration shall be limited to the purpose for which it was authorized, (4) such use shall be non-exclusive and non-assignable, (5) no exportation of the products from the use is allowed, (6) the authorization of the use shall be liable to be terminated if and when the circumstances which led to it cease to exist, and (7) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization.

\textsuperscript{298} See J. H. Reichman, “Universal Minimum Standards” 357.
Under the current Chinese patent law, the triggering events for a compulsory license are: (1) circumstances where an entity or individual capable of implementing the patent product or process was unable to obtain a license from the patentee for a reasonable period of time 299 (However, the potential licensee is required to provide such evidence 300), (2) state emergency which necessitates the issuance of a compulsory license 301 (Such use shall be restricted to the domestic market only 302), and (3) cross-license where the implementation of a subsequently granted patent, which is actually a substantial improvement of an earlier granted patent, is conditional on the use of the first granted patent. 303 Chinese patent law also regulates that use of the patented subject by the compulsory licensee is neither exclusive nor free. The licensee must pay the patentee on a reasonable commercial term. 304 The decisions by the Chinese Patent Office (CPO) to grant a compulsory license may be appealed to the court within 3 months after receiving the decision. 305

In the 1992 MOU with the U.S., China had undertaken a series of obligations in compulsory licenses against American patent holders. Thus, in considering granting a compulsory license, the CPO should make sure that (1) authorization of such use shall be considered on its individual merits, (2) the scope and duration of such use shall be limited to the purpose for which it was authorized, (3) such use shall be non-exclusive, non-

---

299 See the 1992 Chinese Patent Law, art. 51. See also the Detailed Rules, art. 68.
300 Id. art. 54.
301 Id. art. 52.
302 See the Detailed Rules, art. 68.
303 See the 1992 Chinese Patent Law, art. 53.
304 Id. art. 56 & 57.
305 Id. art. 58.
assignable and pre-dominantly for the supply of China’s domestic market, (4) such use shall end with the end of the circumstances which caused the authorization of such use, and (5) the patent holder shall be paid adequate remuneration and any decision relating to remuneration shall be subject to judicial review.\textsuperscript{306} It should be noted that once China joins the WTO organization, those undertakings will be available to the nationals of other member countries by operation of the MFN treatment principle under the GATT or under the TRIPS Agreement.

\textbf{Institutional processes for patent application filings} The followings are a brief description of the patent application process, which may be helpful in understanding the Chinese system even though they are not regulated in the TRIPS Agreement. The Current patent law requires the patent application to be filed either with CPO, which currently has 928 employees including over 500 examiners,\textsuperscript{307} or its branches in Nanjing or Chengdu,\textsuperscript{308} which were established in 1986 to cope with the overburdened application filings in the central CPO office. With respect to Taiwanese applicants, according to the 1990 announcement made by the CPO, the China Council for Promoting International Trade and the Shanghai Patent Firm are authorized to accept such applications on behalf of the CPO in addition to a few other firms.\textsuperscript{309}

\textsuperscript{306} See the 1992 MOU, art. 1 (1) (d) (ii) (1-12).
\textsuperscript{309} Id. at 84 & 88.
However, the foreign applicant (individuals, enterprises or organizations) must rely on Chinese patent agents designated by the State Council to file and prosecute patent applications on their behalf. Application fees for inventions, utility models and industrial designs are 340, 200 and 160 YMB respectively. Foreign applicants are required to pay the equivalent amount in foreign currency as required by the national treatment principle. With respect to the language of the documents, all patent application must be filed in Chinese. The CPO will reject application in languages other than Chinese. Only those documents that are of evidentiary nature may be submitted in foreign languages. But in cases where the CPO deems appropriate, the documents must be endorsed by Chinese translations. The preparation of an application in Chinese is one of the services that are provided by foreign patent agents.

Like its many western counterparts, the CPO is the place where the patent application is examined. Consistent with the patent laws of most countries in the world except the U.S., the CPO publishes all applications at the expiration of 18 months from the effective filing dates after the preliminary examinations. The preliminary examination, a formality that starts immediately after the receipt of the application, includes an inspection of (1) whether all essential documents are included and are in

312 Id. at 66 note 1.
313 See the Detailed Rules, art. 4 (1).
314 Id. art. 4 (2).
315 See the 1991 PRC Patent Agency Act, art. 8 (2).
316 See the 1992 Chinese Patent Law, art. 34.
compliance with the requirements and (2) whether the subject matter is patentable.\footnote{See the Detailed Rules, art. 44.} After the preliminary examination, the application is subject to publication after 18 months from the filing date. Upon publication, the applicant has forfeited the option to retain the technology as a trade secret should the application be finally rejected. However, compensated by a provisional provision, the automatic publication fairly balances the interests of the patent applicants and that of the public. This is also the basic approach adopted by the Patent Law Harmonization Treaty.\footnote{See Harold C. Wegner, at 259-268.} According to Chinese Patent Law, the provisional provision stipulates that applicants may require the entity or individual that has exploited the invention after publication of the application to pay an appropriate fee should a patent be ultimately issued.\footnote{See the 1992 Chinese Patent Law, art. 13.}

Amendments to the application can be made at the applicant’s request for a substantive examination, or as required by the CPO after the substantive examination has already commenced. However, amendments to the application must confine to the original scope of disclosure and claims.\footnote{Id. art. 33. See also The Detailed Rules, art. 51 & 52.} Current Chinese Patent Law also allows both pre-grant and post-grant oppositions. Once an application has been published and before the patent has been granted, any person who believes that the application is not in conformity with the legal requirements may oppose the patent application by way of an opposition application to the CPO upon sufficient grounds.\footnote{See the Detailed Rules, art. 48.} In practice, such procedure has rarely been used, at less than 1 percent of the total applications, indicating a low level
of awareness of the legal processes among the general public. Within 6 months after the patent has been granted, an opposition may be made to the CPO. The CPO either sustains or overrules the opposition after an examination. An opposition made after 6 months of the grant of the patent is made to the Patent Re-examination Board.

4. Summary

As far as the substantive standards of the patent system are concerned, the Chinese patent law provides a standard of protection that is basically in line with the TRIPS Agreement. According to the economic development stages theory, the level of patent protection is more advanced in terms of lifting the ban on patentability of medicines, chemical products, food and drink. However, it is not yet clear whether China will list plant varieties as patentable subject matter as required by the TRIPS Agreement. The bundle of exclusive rights conferred by the Chinese patent law is as extensive as the TRIPS requirements, including the newly added import right. With respect to infringement, under the Chinese patent law, innocent use of patented products or processes does not constitute infringement, which is contrary to the internationally accepted practice that neither knowledge of the patent nor the intent to infringe it is a necessary element to the establishment of infringement. In the area of compulsory licenses, the Chinese patent law and practice conform to the principles set out in the TRIPS Agreement.


B. Enforcement Mechanisms and Procedures

1. The future of unilateral trade sanctions

One of the drawbacks that the Paris Convention suffers from is its lack of effective and adequate dispute settlement and enforcement mechanism for challenging countries that do not meet their obligations. In fact, integration of the IP issue into the GATT trade regime was sought in part to provide an enforcement mechanism, namely the possibility of trade sanctions against countries that failed to provide adequate protection for IP. Undoubtedly, this was a key issue for all parties in the Uruguay Round talks. On one hand, the developed countries seeking higher level protection of IP needed to have binding and credible enforcement provisions if they were to forsake unilateral retaliatory action; on the other hand, the developing countries, the likely ‘target’ countries, also had a strong interest in restraining the scope for unilateral actions as much as possible.

Given that IP is now subject to multilateral disciplines, unilateral policies such as Section 301 of the U.S. trade law can only be invoked with respect to issues that are not covered by the TRIPS Agreement. The Dispute Settlement Understanding (DSU), a new dispute resolution system reached at the GATT Uruguay Round, explicitly refers to the inapplicability of any domestic dispute procedures such as Section 301 when a trade dispute is covered by a Uruguay Round agreement. If a country was found by a WTO

324 See Monique L. Cordray, “GATT or WIPO?” (February 1994) JPTOS 131-133.
326 See Bernard M. Hockman, at 50.
327 Id.
dispute panel to be in violation of its obligations to protect IP under the TRIPS Agreement, the injured WTO member might be authorized to impose trade sanctions against goods imported from that country.\textsuperscript{329} Therefore, any independent determination that is made in regard to a impugned violation is a violation of the DSU and of international law.\textsuperscript{330}

However, there are indications that the U.S. is willing to proceed with unilateral action despite possible DSU violations,\textsuperscript{331} especially in situations involving a developing country which is moving from a centrally planned economy to a free market economy. In such cases, by virtue of the waiting period of compliance prescribed for such countries in the TRIPS Agreement, the U.S. could argue that during these transitional phases the IPR issues of those countries are not governed by TRIPS and DSU,\textsuperscript{332} thus justifying the use of Section 301. As far as China is concerned, it may still be that the Section 301 will continue to linger over the trade relations between the two countries for a long time to come.

2. The 1995 MOU

The reason that the USTR listed China as a “priority foreign country” under the “section 301” in June 1994 was its rampant piracy of IP products and lack of effective

\textsuperscript{328} See Bernard M. Hoekman, at 51.
\textsuperscript{329} Id.
\textsuperscript{330} For a general reassessment of the Section 301 under the completion of TRIPS and DSU, see Myles Getlan, “TRIPS and the Future of Section 301: A Comparative Study in Trade Dispute Resolution” (1995) 34 Columbia Journal of Transitional Law 173-218.
\textsuperscript{331} Id. 214.
\textsuperscript{332} Id. 215.
enforcement of its IP laws.\textsuperscript{333} China was noted to have maintained “a myriad of hidden quotas and non-transparent regulations that effectively keep U.S. intellectual products out of the Chinese market.”\textsuperscript{334} On December 31, 1994, USTR Kantor issued a proposed determination that China’s IPR enforcement practices were unreasonable and burdened or restricted U.S. commerce and denied fair and equitable market access to U.S. IPR owners.\textsuperscript{335} Following that finding was the Administration announcement on February 4, 1995, of the automatic imposition of 100% tariffs on over $1 billion imports of Chinese product if an acceptable agreement could not be reached by February 26, 1995. China responded to the sanctions by announcing retaliatory tariffs against American exports. China further announced that it would suspend talks with U.S. companies regarding automobile joint ventures, etc. With too much at stake, both sides once again managed to reach an accord - the 1995 MOU - before the sanctions took effect. The 1995 MOU has been described as the most comprehensive copyright enforcement agreement the U.S. has ever negotiated.\textsuperscript{336}

Much of the 1995 MOU covers copyright and trademark law enforcement, but the basic procedures and actions taken by the Chinese government under the MOU will certainly exert the same effect on the patent rights enforcement practices. One significant result of the agreement is the creation of a comprehensive enforcement mechanism that is empowered to investigate, prosecute and punish infringing activities throughout China.

\textsuperscript{333} See “The Executive Briefing” (15 July 1994) East Asian Executive Reports 4.
\textsuperscript{334} \textit{Id.}
\textsuperscript{335} See Charlene Barshefsky’s testimony, at 7.
This enforcement mechanism, with respect to patent right enforcement, is accomplished through:

- the establishment of a state council working conference on IPR that will issue directions and coordinate IPR policies,
- the establishment of sub-central (provincial, regional and local) IP working conferences in at least 22 provinces, regions and major cities and special enforcement task forces,
- cross-jurisdictional enforcement efforts will be specially authorized, coordinated and carried out by enforcement task forces,
- enforcement task forces in which all relevant departments, including the police and customs, will participate so that the task force has the authority to search premises, preserve evidence of infringement and take action to shut down production of infringing goods, impose fines and revoke operating permits and business licenses, and
- technical assistance from the U.S. Customs Service, Department of Justice and the Patent and Trademark Office to ensure effective implementation of these programs and mechanisms.\(^{337}\)

Other enforcement and administrative actions include improved access to effective administrative and judicial relief, including expeditious handling of IP cases involving foreigners (this is basically a preferential treatment), the right to investigate alleged infringement and to present evidence, and to request preservation of evidence of infringement while the case is pending.\(^{338}\)

---

\(^{337}\) See the 1995 MOU: Action plan for Effective Protection and Enforcement of Intellectual Property Rights in China.

\(^{338}\) See Trade Ambassador Michael Kantor's testimony before the House Ways and Means Subcommittee, 9 March 1995, at 15.
However, the 1995 MOU did not cure China’s lax enforcement of IPR law. In 1996, the USTR once again announced Section 301 investigation of the Chinese IPR regime. It has been suggested that if faithfully implemented by China’s authorities, the 1995 Accord should have its greatest impact in the area of enforcement.\textsuperscript{339} Despite the remarks that “nothing is more important in this agreement (1995 MOU) than allowing market access. Without that, just enforcement of the law is of no moment,”\textsuperscript{340} it is clear that the Action Plan itself has failed to achieve the set goals in the MOU. What the 1995 MOU has in fact achieved is the expanded authorities and extended power of newly created and existing competent authorities to deal with IPR infringement activities. The 1995 Accord did not and could not solve the fundamental problems inherited in enforcing IPR laws, such as the dependence of the Chinese judicial system and its encumbered capacity to deal with the IPR issues largely due to its still developing economy. Unless such problems are solved, any expectation of vastly improved IPR law enforcement in China would be illusory.

3. **TRIPS Agreement’s general obligations requirements**

The basic objectives of the TRIPS enforcement procedures are two fold: to ensure that the effective means of enforcement are available to right holders and to ensure that the enforcement procedures are applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide safeguards against their abuse.\textsuperscript{341} Consequently, the TRIPS Agreement sets out two main types of obligations for its member states: certain

\textsuperscript{339} See Derek Dessler, 242.
procedures and remedies, and "performance" requirements in relation to the workings of these procedures and remedies.\textsuperscript{342} With an aim to ensure effectiveness and that certain basic principles are followed, Article 41 of the TRIPS Agreement prescribes the following five general obligations for its member states:\textsuperscript{343}

1. WTO members shall ensure that enforcement procedures as specified in the TRIPS Agreement are available under their national laws so as to permit effective action against any act of infringement of IP rights. Members are required to provide "expeditious remedies to prevent infringement and remedies which constitute a deterrent to further infringement."\textsuperscript{344}

2. Enforcement procedures should be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time limits or unwarranted delays.\textsuperscript{345}

3. Decisions on the merits of a case shall preferably be in writing and reasoned. They shall be made available at least to the parties to the proceeding without undue delay. Decisions on the merits of a case shall be based only on the evidence in respect of which parties were offered the opportunity to be heard.\textsuperscript{346}

4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions.\textsuperscript{347}

5. There are no obligations for member states to put in place a dedicated judicial system for IPR.\textsuperscript{348}

\begin{footnotes}
\item[340] See Trade Ambassador Michael Kantor's testimony, at 9.
\item[341] See Adrian Otten & Hannu Wager, "The Emerging World View" 403.
\item[342] Id.
\item[343] Id. 403.
\item[344] See the TRIPS Agreement, art. 41(1).
\item[345] Id. art. 41(2).
\item[346] Id. art. 41(3).
\item[347] Id. art. 41(4).
\item[348] Id. art. 41(5).
\end{footnotes}
Consistent with the TRIPS Agreement, China Civil Procedure Law requires that decisions of the courts be in writing, which should include, among other things, the facts found by the court, and the reasoning of the court as well as the applicable law.\textsuperscript{349} Court rulings may be in writing or oral, depending on the significance of the matter to be ruled.\textsuperscript{350} The adjudicative decisions of the Patent Administrative Authorities (PAA), which have the concurrent jurisdiction with the courts over patent infringement,\textsuperscript{351} should also be in writing, including the facts found by the PAA and the applicable law.\textsuperscript{352} Chinese Laws and regulations recognize the right of the parties to a proceeding to the service of the court decisions and relevant documents,\textsuperscript{353} but there are no requirements that service of the court decisions and relevant documents be made in a timely fashion and without undue delay.

According to the Civil Procedure Law, parties to a proceeding have the right to collect and present evidence, the right to be heard, and the right to engage a lawyer to act on their behalf.\textsuperscript{354} “Every one is equal in the eyes of the law” has been claimed one of the principles of Chinese law.\textsuperscript{355} In adjudicating cases, both the courts and the PAA are required to base their decisions solely on the facts and the law.\textsuperscript{356} The courts are required to exercise judicial power independently, that is, courts are not to be subjected to

\begin{itemize}
\item \textsuperscript{349} See the 1991 PRC Civil Procedure Law, art. 138(2).
\item \textsuperscript{350} Id. art. 140.
\item \textsuperscript{351} See the 1992 Chinese Patent Law, art. 60: The PAAs may mediate disputes over the appropriate fees for use of any pending patents (from publication of the patent application to the final grant); disputes over the right to apply for a patent and patent ownership and other patent disputes which may be mediated or disposed of by the PAAs. See also the 1989 PAAs Adjudicating Procedure, art. 5.
\item \textsuperscript{352} See the 1989 PAAs Adjudicating Procedure, art. 23.
\item \textsuperscript{353} See the 1991 PRC Civil Procedure Law, art. 77-84.
\item \textsuperscript{354} Id. art. 50.
\end{itemize}
interference by any administrative organs, public organizations or individuals.\textsuperscript{357} This constitutional requirement is reinforced in the Civil Procedure Law: case decision shall be based on laws and specific facts of each case.\textsuperscript{358}

In reality, however, many court decisions are not based solely on the facts and law and not every one is equal in the eyes of the law. For one thing, courts in China do not possess the same power and prestige as courts do in common-law countries. This is reflected in the structure of the court system in China. There are four levels of courts of general jurisdiction. These are the Supreme People’s Court (SPC), the Higher-Level People’s Court (HLPC), the Intermediate-Level People’s Court (ILPC) and Basic Level People’s Court (BLPC). Generally, court presidents are chosen by the People’s Congress at the same level and vice presidents and other judges are chosen by the corresponding People’s Congress Standing Committees.\textsuperscript{359} Thus, “BLPC judges are beholden to the County-level government, HLPC judges are beholden to the provincial-level government, and the SPC judges are beholden to the central government.”\textsuperscript{360} This beholdeness in terms of both personnel and funding is manifested in practice as local protectionism and has greatly affected the normal functioning of the court system.\textsuperscript{361}

\textsuperscript{355} See the 1991 PRC Civil Procedure Law, art. 8.
\textsuperscript{356} Id. art. 7. See also the Adjudicating Procedure, art. 3.
\textsuperscript{357} See the 1982 PRC Constitutional Law, art.126.
\textsuperscript{358} See the 1991 PRC Civil Procedure Law, art. 7.
\textsuperscript{359} See the 1983 Court Organization Law, art. 35.
\textsuperscript{361} Id. 21-49.
In the context of the Chinese polity, "courts are, and are seen by other bureaucracies as, a separate but equal bureaucratic hierarchy. They are conceded their own sphere of authority, but they do not have the overarching authority of courts in the common law system."\textsuperscript{362} Thus, courts in China whose power is much more restricted in reality have to "enforce a set of rules that are essentially alien to the system: rules that purport to operate horizontally, across bureaucracies, and to bind all citizens and institutions equally."\textsuperscript{363} As a consequence, judges can not simply independently deliver their decisions based solely on the facts and the evidence, especially in cases involving the interests of the courts or of a powerful party. The ability of the Chinese courts to enforce legal standards is also severely limited by other reasons, such as a lack of education among judges, corruption of officials and difficulty in enforcing court decisions.\textsuperscript{364} Even if a sound decision is made, the courts often find themselves having great difficulty in executing their orders due to local protectionism.

In summary,

While the legal system has undergone significant reforms in the last decade, in a number of crucial areas it remains unable to perform the task of enforcing the rules of economic reform. First, no evidence exists to suggest that courts have any more real power now than they did a decade ago. The observance of court judgments for many institutions remains essentially voluntary. Yet establishing a system where courts would have real power involves grasping some very thorny political nettles. Second, courts remain essentially the creatures of the level of government that appointed their personnel. They cannot be used to overcome the obstacles to reform caused by local

\textsuperscript{362} See Donald C. Clarke, "Power and Politics in the Chinese Court System" 85.

\textsuperscript{363} Id.

\textsuperscript{364} For a detailed analysis of the weakness of Chinese courts, see Donald C. Clarke, "What's Law Got to Do With It? Legal Institutions and Economic Reform in China" (Fall 1991) 10 UCLA Pacific Basin Law Journal 57-69.
protectionism and particularly when they are part of the very structure causing the problem. 365

In the same vein, the PAAs are worse than the courts, as they are simply the extended organs of various levels of the governments. The PAAs were founded under the auspices of central or local governments at various levels. 366 This institutional basis dictates the dependence of the PAAs upon the same level local governments for their existence and finances. In other words, the operation of the PAAs is at the mercy of their corresponding governments. As with the courts, in cases where the interests of local government officials are involved, it is very unlikely that the parties to the dispute will get a fair mediation.

According to the Adjudication Procedure, parties who are not satisfied with the PAA decision – apparently administrative in nature, may appeal to the court within three months after receiving the decision. 367 If an appeal is not initiated within the prescribed period, the decision of the PAA becomes final and effective. 368 If not voluntarily executed between the parties, the PAA decision is enforceable through court by application either by the PAA 369 or by the interested party. However, enforcing the PAA decisions through courts may present problems, since courts may have difficulty in enforcing their own judgments due to local protectionism. The fact that PAA decisions can not be executed poses a threat to the effectiveness of the system.

365 See Donald C. Clarke, “What’s Law Got to Do With It?” 75.
366 See the 1989 PAAs Adjudicating Procedures, art. 2.
367 Id. art. 24.
Another administrative authority for the enforcement of patent law is the Chinese Patent Office (CPO) - the functional authority in charge of patent work under the State Council. Within the CPO, the Patent Re-examination Board (PRB) supervises the decisions made by the CPO regarding patent application, approval and opposition.

According to Article 43 of the 1992 Patent Law, the CPO’s decisions to refuse to grant a patent (during the application process), to sustain and maintain the patent rights (during the opposition process), may be appealed to the PRB for re-examination within three months after the CPO decisions were delivered. The PRB decisions regarding invention patent can still be appealed to courts if initiated within three months after receiving the PRB decisions. In the appeal process, the respondent is the PRB. However, decisions regarding utility models or industrial designs by the PRB are final - they may not be appealed to courts. Clearly, this provision does not comply with Article 41 (4) of the TRIPS Agreement.

Another important administrative power the CPO enjoys is to issue compulsory licenses. Regardless of the subject matters, invention, utility model or industrial design,
all compulsory license decisions by the CPO may be appealed to courts with the CPO as the respondent.\textsuperscript{374}

In recognition of the specialized nature of the IPR cases and the growing volume of IPR cases which indicates the increasing social awareness of IPR issues among the public,\textsuperscript{375} the HLPC of several provinces and major cities such as Beijing and Shanghai have established IP Divisions (IPD) among other Divisions. IPD was also established in ILPC in Special Economic Zones and other major cities.\textsuperscript{376} Disputes that were heard by the Economic Divisions are now heard exclusively at the IPD. The establishment of IPD highlights the Chinese government's genuine commitment to an effective IPR system.

4. Civil and administrative procedures and remedies

\textbf{Fair and equitable procedures} The TRIPS Agreement requires that right holders have access to civil and administrative procedures in respect of any activity infringing IPRs covered by the Agreement and that those procedures have to be fair and equitable. In this regard, the TRIPS Agreement requires that defendants shall have the right to timely written notice which contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearance. All parties shall be duly entitled to substantiate their claims and to present all relevant evidence.\textsuperscript{377}

\begin{flushright}
374 See Notice of the Supreme People's Courts on several issues in adjudicating patent dispute cases, art. 4 (1), (2), (3).
375 See David Hill and Judith Evans, 397.
376 See the White Paper: "Intellectual Property Protection in China."
377 See the TRIPS Agreement, art. 42.
\end{flushright}
In China, all civil proceedings are initiated by an originating application or a petition to the court.\(^{378}\) In order for an application to be accepted by the court, it must contain a concise statement of the material facts and remedies sought as well as supporting evidence.\(^{379}\) The court must make a decision whether to accept and register the application within 7 days.\(^{380}\) Once the case is accepted and registered, the defendant shall be notified with a copy of the originating application within 5 days after registration of the case.\(^{381}\)

A party to a proceeding may act on his or her behalf,\(^ {382}\) or engage a lawyer to act.\(^ {383}\) The Civil Procedure law does not have mandatory requirement for the defendant to make a personal appearance. If the defendant does not enter an appearance, the court may enter a default judgement.\(^{384}\) However, a plaintiff’s failure to make a personal appearance amounts to discontinuance of the proceeding, i.e. withdrawal of the action against the defendant; moreover, if the defendant counter claimed, a default judgement might be entered against the plaintiff.\(^ {385}\) Parties to a proceeding have the right to collect and present evidence, to defend his or her claims and to question the other party.\(^ {386}\)

**Evidence of proof** The TRIPS Agreement requires that the judicial authority shall have the power, where a party has presented reasonably available evidence sufficient to support its claim and has specified

---

\(^{378}\) See the 1991 PRC Civil Procedure Law, art.109.

\(^{379}\) *Id.* art. 108, 110.

\(^{380}\) *Id.* art. 112.

\(^{381}\) *Id.* art. 113.

\(^{382}\) *Id.* art. 12, 13.

\(^{383}\) *Id.* art. 50.

\(^{384}\) *Id.* art. 130.

\(^{385}\) *Id.* art. 129.

\(^{386}\) *Id.* art. 50.
evidence relevant to substantiation of its claim which lies in the control of the opposing party, to order that this evidence be produced by the opposing party, subject to conditions which ensure the protection of confidential information. In cases where a party without good reasons refuses access to necessary information within a reasonable period, member states may accord a judicial authority the power to make determinations based on the available information and evidence, including the complaint and allegation presented by the party adversely affected by the denial of access to the information.

The Chinese Civil Procedure Law empowers the courts to order the relevant Unit or individual, including the defendant, to produce and collect evidence. In the collecting process, courts are not required to give special regard to the evidence that relates to the state or confidential business information or privacy. But such evidence shall be protected when presented to the open court. Refusing access to information without good reasons or producing false evidence, or significantly obstructing enforcement of a judgment may give rise to fines, imprisonment or even criminal charges under the Civil Procedure law.

**Remedies** The TRIPS Agreement requires that courts shall have the power to give injunction orders to a party, which requires the party to desist from an infringement, *inter alia* to prevent the goods that involve the infringement of an IPR from entering into the channels of commerce immediately after customs clearance. Courts should also have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury or loss the right holder has suffered, including recovery of profits and appropriate attorney’s fees.

---

387 See the TRIPS Agreement, art. 43 (1).
388 *Id.* art. 43 (2).
389 See the 1991 PRC Civil Procedure Law, art. 65.
390 *Id.* art. 66.
391 *Id.* art. 102, 103.
392 See the TRIPS Agreement, art. 44.
393 *Id.* art. 45(1)(2).
In certain situations, courts may order remedies of forfeiture and destruction or disposal of infringing goods and materials as well as instruments used to produce them without compensation of any sort.\footnote{See the TRIPS Agreement, art. 46.}

Under the Chinese patent law, available remedies for patent infringement include injunctions, damages and criminal charges. However, the courts and the PAAs do not issue any interim injunctions.\footnote{See Derek Dessler, 239.} An injunction is only available after an infringement is found.\footnote{See the 1992 Chinese Patent Law, art. 60.} As to goods involving infringement of IPR, no clear written law empowers the Chinese judicial authorities to issue injunctions preventing such goods from entering circulation after the customs clearance.

In awarding damages, Chinese courts are required to follow the principle that the right holder be reasonably and adequately compensated for the actual losses suffered.\footnote{See Notice of the Supreme People’s Courts on several issues in adjudicating patent dispute cases, Feb 9, 1992, art. 4.} In quantifying damages, factors that are to be taken into account are (1) the actual economic loss suffered by the right holder, (2) the profit made by the infringer, and (3) licensing fees.\footnote{See Notice of the Supreme People’s Courts on several issues in adjudicating patent dispute cases, Feb 9, 1992, art. 4.} Regarding attorney’s fees, winner of the lawsuit is not entitled to tack his or her attorney’s fees onto the judgement. In patent passing off case, the defendant may be subject to fines of up to three times of the profit illegally made.\footnote{See Notice of the Supreme People’s Courts on several issues in adjudicating patent dispute cases, Feb 9, 1992, art. 4.} However, there is no specific provision that empowers the courts to order destruction of the infringing goods.
Indemnification of the defendant  To implement the principle of fairness and equity, the TRIPS inserts an indemnification clause to protect the legitimate interest of the defendant who was wrongfully enjoined or restrained. In such cases, the court shall have the power to order the plaintiff at whose request measures were taken and who has thus abused enforcement procedures to provide to the wrongfully accused defendant for the injury suffered and expenses, including appropriate attorney’s fees.\(^{400}\)

Chinese IPR laws lack such general provisions that empower the court to give order to indemnify the wrongfully enjoined or restrained defendant. Abuse of legal system is certainly one area of laws that have not fully developed yet in China. In some situations, however, Chinese laws do have some provisions that clearly protect the legitimate interests of the defendant. For example, in court actions initiated by the applicant for the purposes of successfully executing an anticipated court judgement, the applicant is required to furnish security to the court to protect the legitimate interests of the respondent.\(^{401}\)

5. Provisional measures

Preserving evidence The TRIPS Agreement requires that judicial authorities have the power to order prompt and effective provisional measures to prevent an infringement activity from occurring and to preserve relevant evidence.\(^{402}\) In cases where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed, the judicial authority shall have the

\(^{398}\) See Notice of the Supreme People’s Courts on several issues in adjudicating patent dispute cases, Feb 9, 1992, art. 4 (1) (2) (3).

\(^{399}\) See the Detailed Rules, art. 78.

\(^{400}\) See the TRIPS Agreement, art. 48 (1).

\(^{401}\) See the 1991 PRC Civil Procedure Law, art. 92-99.

\(^{402}\) See the TRIPS Agreement, art. 50(1)(b).
power to adopt provisional measures without a prior hearing of the party who may be adversely affected by the measures.\footnote{403}

Lack of interlocutory injunction in Chinese judicial system tends to worsen the lax enforcement of IPR laws in China. As a prompt and effective provisional measure to prevent the occurrence of an infringement, an interlocutory injunction serves to maintain the \textit{status quo}, to minimize the risk of judicial error and to preserve the court’s ability to render a meaningful final decision. In preserving evidence that may be destroyed or may become difficult to collect, according to Article 74 of the Civil Procedure Law, litigants may petition courts to take action to preserve the evidence, or the courts may voluntarily take measures to preserve such evidence without litigants’ petitions. As result of the 1995 MOU, the enforcement task forces also have the authority to search premises, to preserve evidence of infringement, to take action to shut down production of infringing goods, to impose fines and to revoke operating permits and business licenses.\footnote{404}

\textbf{Safeguards to prevent abuse of the provisional measures} The judicial authorities shall have the power to require the applicant to provide sufficient evidence to prove that he or she is the right holder and that his or her right is being infringed or such infringement is imminent, and to order the applicant to provide a security or equivalent assurance sufficient to protect the defendant.\footnote{405} Where such provisional measures have been adopted, the party affected shall be given notice without delay. On request of the defendant, a review of the legitimacy of the measure should be available to the defendant.\footnote{406}

\footnote{403}{See the TRIPS Agreement, art. 50(2).}
\footnote{404}{See the 1995 MOU, action plan.}
\footnote{405}{See the TRIPS Agreement, art. 50(3).}
\footnote{406}{\textit{Id.} art. 50(4).}
Under the Chinese Civil Procedure Law, to apply for preservation of assets or advance execution, the applicant must provide the court with security, or risk the application being refused. On approving such an application, the court is required to notify the affected parties without delay. The affected parties may apply for a review of the court decision. With respect to applications for preserving evidence, the Chinese law is silent on the issues of whether the applicant should furnish security, whether the court should give a timely notice, and whether any review process is available to the adversely affected parties.

6. Border measures

The TRIPS Agreement makes a distinction between infringing activity in general, for which civil judicial procedures and remedies must be available, and counterfeiting and piracy, a more blatant and egregious form of infringing activity for which additional procedures and remedies must also be provided, namely border measures and criminal procedures. The border measures function not only to prevent the infringing activity at its source but also as a safety net in the event that enforcement at the source has not taken place.

Suspension of release by Customs authorities Members shall adopt measures to enable a right holder to lodge an application with competent
authorities for the suspension by the customs authorities of the release into free circulation of patent-infringing goods.\textsuperscript{413}

To further integrate its patent law and practice with the international standards and to facilitate enforcement of the patent holders' import rights, China promulgated the Intellectual Property Customs Protection Regulation on July 5, 1995 (the Regulation),\textsuperscript{414} the first comprehensive border measures ever adopted to protect IPR.\textsuperscript{415} By virtue of the Regulation, IPR holders may file an application for the suspension from free circulation of IPR-infringing goods at the border. The Regulation confines the scope of Customs protection to patents that are protected by Chinese Patent Law or administrative regulations.\textsuperscript{416} Thus, only goods that infringe the patents protected by Chinese law are prohibited from being imported or exported.\textsuperscript{417}

**Application.** In applying for border measures, the applicant must prove with evidence that there is a prima facie case of infringement of his or her patent right under the laws of the country of importation and provide sufficiently detailed description of the goods. The competent authority shall inform the applicant within a reasonable period whether the application has been accepted and the period for which the competent authorities will take action.\textsuperscript{418}

\textsuperscript{413} See the TRIPS Agreement, art. 51.
\textsuperscript{414} See (August 1995) 9 China Law & Practice 7.
\textsuperscript{415} On September 1, 1994, the Chinese Central Customs made an announcement regarding IPR border protection measures, which contains only 7 articles. The announcement is collected in *The PRC IPR Law and Regulation Collection*, (Beijing: China Law Press, 1995) at 150.
\textsuperscript{416} See the PRC Intellectual Property Customs Protection Regulation (the Customs Protection Regulation) art. 6, reprinted in *China Legal Daily* (10 July 1995)
\textsuperscript{417} *Id.* art. 3.
\textsuperscript{418} See the TRIPS Agreement, art. 52.
In order to apply for Customs protection, the patent holder or his agent must first deposit a record of the patent information with the Central Customs. In applying for border protection measures, the right holder must submit a written application with the appropriate Customs office where the infringing goods are to be cleared. The application should include information about the holder of the patent right and record number, identity of the suspected infringer, the name and the categories of the infringing goods, evidence of the infringement, and the protection measures sought.

Once the application is accepted, the applicant will be notified. However, the Regulation lacks detailed provisions on related procedural issues, such as whether the Customs should make a decision to accept or to reject the application within “reasonable time period” and to “promptly” notify the applicant. Considering the special nature of the border protection measures where time is of the essence, such defect would undoubtedly hinder the effectiveness of the system, thus affecting the legitimate interests of both the applicant and the owner of the impugned goods.

**Security or equivalent assurance** The competent authority shall have the authority to require an applicant to provide a security or equivalent assurance sufficient to protect the defendant. Where the release of the goods has been suspended by customs authorities on the basis of a decision other than by a judicial or other independent authority, the owner, importer or consignee of such goods shall be entitled to their release on the posting of a security in an amount sufficient to protect the right holder for any infringement.

---

419 See the Customs Protection Regulation, art. 6.
420 Id. art. 13.
421 Id. art. 17.
422 See the TRIPS Agreement, art. 53 (1).
423 Id. art. 53 (2).
In line with the TRIPS Agreement requirement, the Regulation requires that an applicant applying for border protection measures provide a security equivalent CIF (cost, insurance and freight) of the imported goods or FOB (free on board) the exported goods.\textsuperscript{424} The consignee or consignor may apply for the release of the suspended goods upon making a deposit with the Customs of twice the CIF or FOB price of the goods.

\textbf{Duration of suspension}  The suspension of the goods shall be released, if after the 10 working days since the applicant has been served notice of suspension, no further proceedings leading to a decision on the merits of the case have been initiated by the applicant.\textsuperscript{425}

Similar provisions can be found in the Regulation. Among the events that trigger the release of the suspended goods is the failure of the applicant to initiate court proceedings within the prescribed time,\textsuperscript{426} which is longer than as required by the TRIPS Agreement.\textsuperscript{427}

\textbf{Right of inspection} Members shall provide the competent authorities the authority to give the right holder sufficient opportunity to have any product detained by the customs authorities inspected in order to substantiate his or her claims.\textsuperscript{428}

\textbf{Remedies} The remedy provision requires that the competent authorities should have the power to order the destruction or disposal of infringing goods in a way that would avoid any harm to the right holder.\textsuperscript{429}

\textsuperscript{424} See the Customs Protection Regulation, art. 14.
\textsuperscript{425} Id. art. 13.
\textsuperscript{426} See the TRIPS Agreement, art. 55.
\textsuperscript{427} See the Customs Protection Regulation, art. 22 (3).
\textsuperscript{428} Id. art. 17: the prescribed time frame is 15 days.
\textsuperscript{429} See the TRIPS Agreement, art. 57.
With respect to the inspection right of the right holder, the Regulation lacks relevant provisions. Without such provisions, applicant would have greater difficulty in substantiating his or her claims, which is usually a prerequisite for the application to be accepted. In terms of available remedies, the Regulation makes a distinction between the subject matters of IPR that have been infringed. Goods infringing copyright or trademark may be destroyed by Customs. In disposing of patent infringing goods, Customs shall refer to the relative regulations of the State Council.430 According to the 1992 Patent Law, no destruction of infringing goods is available.431

7. Criminal procedures

In cases where infringing activities are committed willfully and on a commercial scale, members may provide for criminal procedures and penalties to be applied.432

Under the Chinese laws, Criminal procedures and penalties are applicable in cases where the infringement is particularly aggravated, malicious, or oppressive.433

8. Summary

With respect to enforcement procedures, most of the basic principles set out in the TRIPS Agreement are followed in China. However, a general tendency in Chinese patent legislation, either in the form of law or regulation, is its lack of detailed rules and procedural provisions to effectively implement these basic principles, thus, rendering the

430 See the Customs Protection Regulation, art. 24 (3).
legal framework virtually meaningless. However, it should be noted that improvement of the legislation takes more than experience and skill, it takes time – time needed for the economy to develop to a corresponding level. It is not difficult to draft a perfect law, but an effective law must correspond with the economic reality. In the Chinese case, enforcement of law has also been hindered by the organizational dependence of the Chinese judicial system. The existence of protectionism among local governments and party officials, and the absence of a coherent plan to address it, make it unrealistic for the courts to reach their decisions solely on the basis of fact and in accordance with law. In terms of the TRIPS standards, it is no doubt that legislative gap and defects exist. For instance, according to the current Patent Law, the PRB decisions regarding utility models or industrial designs are final. Such provision is in conflict with Article 41 (4) of the TRIPS Agreement, which requires that a judicial review of the administrative decisions be available.

In the civil and administrative procedure and remedies section, the Chinese courts lack the authority to issue interlocutory injunctions. In awarding damages, no attorney’s fees are taken into account in most cases. With respect to remedies, the courts also lack the power to order destruction of patent-infringing goods. There are no provisions that provide indemnification to the defendant.

432 See the TRIPS Agreement, art. 61.
433 See the 1992 Chinese Patent law, art. 63.
In the provisional measures section, ambiguity exists as to whether the applicant should furnish security and whether the court should give timely notice, as well as a review process in the case of an application for the preservation of evidence.

In the border measures section, the Customs Protection Regulation is silent on the requirement of the “reasonable time period” within which Customs should make a decision to accept or reject the application and “promptly” notify the applicant as such. As to the right of inspection, there are no provisions which grant the competent authorities the power to provide the right holder with sufficient opportunity to have a product detained by Customs inspected in order to substantiate his claim. Like the courts, Customs also lack the authority to order the destruction of patent-infringing goods.
V. Conclusions

The world is still a place in which competition is the lifeblood of commerce. Nevertheless, competition dictates co-operation in one way or another. With the end of the Cold-War era marked by the dissolution of the Soviet empire in the early 1990s, the world has seen greater economic co-operation and integration. The increasing economic integration and interdependence calls for stronger compatibility among various legal regimes. Consequently, a nation’s domestic law is more and more a reflection of its international obligations.

Whatever premises form the basis of the patent system: the economic thesis or the rights theory, whatever motivations may be behind the developed countries’ drive for strengthened IPR system: for market access or for the protection of vital resources, the TRIPS Agreement codifies a new level of co-operation and internationalization of IPR worldwide, surpassing the pre-existing international IPR standards as set out in the Paris Convention in terms of both minimum standards and enforcement measures.

The economic theory finds its fine application in the development and evolution of Chinese patent law and practice. The adoption of the open-door policy in the late 1970s officially ended the self-imposed and externally-enforced isolation. As a result, Chinese patent law and practice has entered an era of internationalization necessitated by both the growing internal economic pressures: the burgeoning of private economies and the need for foreign investment, and the external trade-related pressures: the Sino-U.S. IPR negotiations. As the TRIPS Agreement represents a culmination of China’s efforts in
furthering its patent law and practice to comply with the international norms, China faces the primary task of solving its lax enforcement problem in the post-Deng era. In the meantime, we should bear in mind that an effective and functional modern patent law must be accompanied by a capable economy and an independent judicial system. Currently, China lacks such either economic or political resources. It is hoped that with the further development of its economy and its improved capacity to deal with IPR issues, China will find a way to balance the powers of its various organs, including that of courts. Only when the courts become the powerful arbiters of last resort as their Anglo-American counterparts are will China have a meaningful and truly internationalized patent law and practice.