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## Recent Amendments to China's Patent Law: The Emperor's New Clothes?

As an economically developing country, the People's Republic of China<sup>1</sup> recognizes that technological innovation and industrial expansion are critical to maintaining internal political control and sovereignty.<sup>2</sup> This Note focuses on China's efforts to increase foreign investment and technology transfer through the mechanism of intellectual property law.<sup>3</sup> Using the evolution of one of its laws protecting intellectual property—the Patent Law—this Note explores China's movement away from the Mao-era's nonrecognition of property rights and economic development towards the current *realpolitik* accommodations between China's socialist political system and its developing market economy. As one commentator aptly stated:

The concept of individuals holding exclusive rights in an article of intellectual property, as well as the "money-seeking" tendencies and excessive individualism such rights might foster, are troublesome for a society with a traditionally low tolerance for rapacious profit-seeking and a long political tradition favouring state control over individual enterprise.<sup>4</sup>

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<sup>1</sup> "China" or "PRC" is used hereinafter to refer to the People's Republic of China as distinguished from the Republic of China (Taiwan).

<sup>2</sup> For example, the flow of goods, services, and personnel between Hong Kong and the adjacent province of Guangdong has had a marked effect on the internal politics of this province and has allowed it to develop a semi-autonomous relationship with the central government in Beijing. JOHN KING FAIRBANK, *CHINA A NEW HISTORY* 416-17 (1992); see also *China's Legislature Approves Membership in Two Copyright Conventions*, PATENT, TRADEMARK & COPYRIGHT DAILY (BNA), July 8, 1992, available in WESTLAW, BNA-PTD File (reporting that the Standing Committee recently granted the Shenzhen Special Economic Zone legal autonomy) [hereinafter Conventions]. China's opening up to the West and economic reforms have created tensions among the Chinese populace and directly influenced cases of internal unrest such as the recent demonstration and military intervention in Tiananmen Square. See FAIRBANK, *supra* at 421-23.

<sup>3</sup> The following doctrines are recognized commonly as protecting intellectual property: trademark, patent law, copyright, trade secret law, and unfair competition. See generally PAUL GOLDSTEIN, *COPYRIGHT, PATENT AND RELATED STATE DOCTRINES* (3d ed. 1990).

<sup>4</sup> Brian Barron, *Chinese Patent Legislation in Cultural and Historical Perspective*, 6 INTEL. PROP. J. 313, 330 (1991).

How socialist China has embraced the capitalist precepts of proprietary interests while facially maintaining its tradition of collective ownership is an important insight to its treatment of intellectual property law.

Part I of this Note briefly describes the economic model that underlies the utility of intellectual property protection and summarizes the inherent dysfunction between the theoretical model and China's cultural and political environment. Part II reviews the original<sup>5</sup> Patent Law of the PRC<sup>6</sup> enacted in 1984, the Law's economic effects in China, and reported defects in the Law. Part III compares the recent Amendments to the original Patent Law approved by the State Council in October 1992<sup>7</sup> and to the modifications of the Law agreed to by the Chinese in early 1992.<sup>8</sup> The Note concludes that although some defects remain in the Patent Law, the Amendments provide substantive remedies to many outstanding problems and most likely will bolster the PRC's goal of encouraging foreign trade and investment.

More subtly, the decision to enact major amendments to the Patent Law, comports closely to an accord reached with the United States in January 1992,<sup>9</sup> reflects the determination of the Chinese leadership to increase the confidence level of foreign investors and mirrors their recognition that vigorous protection of intellectual property is integral to China's ongoing economic develop-

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<sup>5</sup> All references to Chinese legal documents in this Note, such as the Constitution of the People's Republic of China, the Patent Law of the People's Republic of China, and the Implementing Regulations of the Patent Law, are taken from English-language secondary sources. Note that the official Chinese-language documents are the authoritative versions of these legal documents.

<sup>6</sup> Patent Law of the People's Republic of China (adopted by the 6th Nat'l People's Cong., 4th Sess. of the Standing Comm., Mar. 12, 1984), translated in 2 CHINA LAWS FOR FOREIGN BUSINESS, CHINA TRADE DOCUMENTS ¶ 11-600 (CCH Australia 1989) [hereinafter Patent Law]. The Patent Law became effective on April 1, 1985. *Id.*

<sup>7</sup> Resolution on Amending the Patent Law of the People's Republic of China (adopted by the 27th Sess. of the 7th Nat. People's Cong. Standing Comm., Sept. 4, 1992), broadcast by Xinhua (China News Agency), translated in SUMMARY OF WORLD BROADCASTS (Brit. Broadcasting Corp.), Sept. 10, 1992, available in LEXIS, Asiapc Library, Allasi File [hereinafter Amendments].

<sup>8</sup> As described in a Memorandum of Understanding with the United States Trade Representative (USTR). See Memorandum of Understanding Between the Government of the People's Republic of China and the Government of the United States of America on the Protection of Intellectual Property, Jan. 17, 1992, U.S.-China (Dep't St. document on file with the B.C. INT'L & COMP. L. REV.) [hereinafter MOU]. Note that the text of the MOU appears in Appendix A.

<sup>9</sup> *Id.* The agreement was the result of negotiations triggered by an investigation by the USTR into unfair trade practices and piracy of technology by the Chinese. See *infra* part II, sec. D.

ment plans.<sup>10</sup> China clearly wants to compete on an equal footing in the world trade arena, and thus has adopted the rules of the game by which the other players compete.<sup>11</sup>

The concerns of foreign investors that such significant changes in China's legal environment are a mere facade, or that a threat of nationalization or loss of rights remains, are misplaced; the benefits and political consequences stemming from the legal recognition of intellectual property rights are too entrenched to shed easily at this point. For example, in recent years, China has joined the Universal Copyright Convention, Berne Convention, Convention for the Protection of Phonograms, Madrid Agreement concerning the Registration of Trademarks, and the GATT Intellectual Property Rights Agreement. As a continuing effort in this vein, China's latest amendments to its Patent Law, spurred by U.S. complaints but not limited thereto, indicate a strong commitment to a capitalist market economy, regardless of the tensions<sup>12</sup> these legal enhancements to proprietary rights may create in the socialist political fabric. The Patent Law has been a lightning rod for change, whether planned or not.

## I. ECONOMIC AND CULTURAL FACTORS TO CHINA'S PATENT LAW

Systems of intellectual property protection, such as patent and trademark laws, evolved as a complement to commerce.<sup>13</sup> Ideas,

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<sup>10</sup> See William E. Beaumont, *The New Patent Law of the People's Republic of China (PRC): Evidence of a Second Chinese "Renaissance"?*, 27 IDEA 39, 39 (1988).

<sup>11</sup> See Jeannette L. Pinard, *Patent Protection Under Chinese Law*, 1 J. CHINESE L. 69, 90-91 (1987).

<sup>12</sup> See Mark Sidel, *Copyright, Trademark and Patent Law in the People's Republic of China*, 21 TEX. INT'L L.J. 259, 280-82 (1986). The original debates in the 1950s between the socialists and the modernists whether a patent system was required at all colors any analysis of the current law. *Id.* The collective ownership principle of socialism suggests that monetary awards rather than proprietary interests would be sufficient to stimulate innovation, while those parties interested in industrial modernization believed Western-style property rights were critically important. *Id.* The modernists are ultimately winning that debate; however, the language of even recent discussions is still colored with socialist terminology. Currently, the Chinese are planning to revise their constitution further to provide even stronger legal protection for market-oriented reforms. David Holley, *China to Alter Constitution to Boost Free Market*, BOSTON GLOBE, Feb. 16, 1993, at 2. The amendment reportedly strengthens the legitimacy of private enterprise and reinforces the trend of free market competition between state-owned enterprises and private entities (which the amendment refers to as the basis for the "socialist market economy"). *Id.*

<sup>13</sup> See GOLDSTEIN, *supra* note 3, at 1-2. As one commentator of China's Patent Law noted, "mental labor, like manual labor, can create value. Inventions and creations, as products of

inventions, and symbolic representations such as logos indicating the source or quality of goods, possess value to buyers and sellers alike; however, in the abstract, these items are inherently intangible and endlessly divisible.<sup>14</sup> In other words, anyone can “take” an idea without causing a physical diminution of the inventor’s property.<sup>15</sup>

Prior to the establishment of intellectual property laws, inventors faced the problem of appropriating their ideas or inventions for their exclusive use, because absent legal property rights, inventors could not exclude others from misappropriating their ideas.<sup>16</sup> Because ideas and inventions have little value in commerce if the public can replicate them freely, intellectual property laws play a critical role in providing economic incentives for the development and disclosure of novel creations.<sup>17</sup> A patent law, for example, encourages inventors to expend resources to develop useful new ideas and to disclose their novel inventions, in return for the grant of near-monopolistic power for a limited time to provide a return on investment.<sup>18</sup>

Patent laws compound the economic and social benefits by providing a similar incentive for future potential inventors and by attracting private investment capital for development and marketing of novel creations.<sup>19</sup> Society also accrues additional benefits during the exclusive patent term which might otherwise be absent, such as the ability to use the invention.<sup>20</sup> Finally, the relatively short duration of the exclusive term—generally seventeen years—means that the invention passes into the public domain at the end of the patent period.<sup>21</sup>

Modern patent systems in developed countries, such as the United States and the European nations, encounter relatively little opposi-

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mental labor, are commodities.” Liwei Wang, *Political and Cultural Perspectives of the PRC Patent Law: The Role of Article 14*, 6 WIS. INT’L L.J. 193, 206 (1988).

<sup>14</sup> GOLDSTEIN, *supra* note 3, at 1–2.

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

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 358.

<sup>19</sup> GOLDSTEIN, *supra* note 3, at 10 (quoting *Report of the President’s Commission on the Patent System* 1–3 (1966)).

<sup>20</sup> For example, other interested parties may license the invention, spreading its value to society more widely than a single entity could. In addition, the published specifications allow other inventors to use the patent as a springboard for experimentation and further innovation. *Id.* at 11.

<sup>21</sup> *Id.* at 10–11.

tion on either theoretical or practical grounds.<sup>22</sup> The ever-accelerating pace of technology over the past century appears to support the basic economic concept that intellectual property protection stimulates innovation. The proof is in the products, so to speak. The situation in developing countries, however, can be quite different because of a strong national interest in protecting embryonic industries from outside competition and preventing excessive foreign ownership and control of critical industries like steel, chemicals, or pharmaceuticals.<sup>23</sup> As a newly developing country with a Marxist, non-market legacy, the road China has taken historically regarding intellectual property rights provides a useful backdrop to further analysis of its patent law.<sup>24</sup>

China's civilization stretches back over 10,000 years,<sup>25</sup> during which time China was often far ahead of other cultures in terms of scientific and technological advances.<sup>26</sup> The Chinese are credited with such notable innovations as gunpowder, paper, and the compass, but certain cultural tendencies led the Chinese to forego commercialization of such inventions.<sup>27</sup> Significantly, the prevalence of

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<sup>22</sup> See ROBERT M. SHERWOOD, *INTELLECTUAL PROPERTY AND ECONOMIC DEVELOPMENT* 1-7 (1990).

<sup>23</sup> Sidel, *supra* note 12, at 282; Beaumont, *supra* note 10, at 50. Sherwood advances a strong recommendation that developing countries should adopt full-fledged legal systems for protecting intellectual property, on a par with developed countries. See SHERWOOD, *supra* note 22, at 2, 8. There is much controversy, however, especially among economists of lesser-developed countries, that intellectual property laws are merely a ploy by developed countries. These economists argue that patents, trademarks and the like merely act to suppress innovation within the developing country and provide developed countries with a built-in trade advantage. *Id.* at 1-2. These arguments are relevant to China's Patent Law, which until recently was like other lesser-developed countries in that it did not provide patent protection for pharmaceuticals. Patent Law, *supra* note 6, art. 25. Although China acceded to the United States Trade Representative and amended its Patent Law to recognize drug and food patents, one could argue that a developing country will spend too much of its foreign capital on advanced pharmaceuticals at high monopoly prices, when it could make them for less or at least sell them at a lower price than that charged by the patent holder. *But cf.* SHERWOOD, *supra* note 22, at 159-70 (questioning lower cost and lack of local development arguments).

<sup>24</sup> See Note, *Copyright Relations Between the US and the PRC: An Interim Report*, 10 BROOK. J. INT'L L. 403, 410 (1984) [hereinafter "Interim Report"]. As the author pointed out, "No examination of the principles governing the protection and dissemination of intellectual property in the PRC would be complete without first recognizing the enormous influence of Marxist-Leninist theories of law and property on the existing political and economic system of the PRC." *Id.*

<sup>25</sup> FAIRBANK, *supra* note 2, at 31.

<sup>26</sup> *Id.* at 2-3.

<sup>27</sup> *Id.* In the Middle Ages (1000-1500 A.D.) for example, China was well ahead of Europe in technology and industrial applications. *Id.* A feudal, rice-based economy, and the natural

Confucian thinking, which stresses personal development rather than personal reward, influenced the institution of a different system of incentives for invention and ingenuity than legal protection.<sup>28</sup> The European cultures established the legal doctrine of property rights in ideas and granted a monopoly to the inventor as an economic incentive for others to innovate.<sup>29</sup> The Chinese, on the other hand, adopted a monetary awards and public recognition approach.<sup>30</sup>

Confucian ideology and China's traditional aversion to individual profiteering fit neatly with the precepts of the Marxist economic system that took hold in 1949 by providing a cultural basis for the preeminence of state interests over individual autonomy.<sup>31</sup> Thus, the PRC's first modern Patent Law in 1950, and subsequent enabling rules such as the 1963 Regulations on Inventions, rewarded inventors with minor prizes, but mandated ownership of novel inventions in the State.<sup>32</sup> During the Cultural Revolution from 1966–1975, Mao's imposition of strict Marxist principles eliminated even these small awards and recognitions to emphasize the subordination of the individual to the State.<sup>33</sup>

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north-south geographical and climatic divisions influenced the lack of commercialization of technology. FAIRBANK, *supra* note 2, at 3–5, 15–16; *see also* Beaumont, *supra* note 10, at 42. Beaumont makes the point that the Chinese always recognized the value of technical progress, but admits that many notable inventions had little impact on the culture and economy. Beaumont, *supra* note 10, at 43.

<sup>28</sup> *See* Barron, *supra* note 4, at 330; Beaumont, *supra* note 10, at 44 (citing J. GERNET, A HISTORY OF CHINESE CIVILIZATION 573 (1985)).

<sup>29</sup> GOLDSTEIN, *supra* note 3, at 358; *see generally* BRUCE W. BUGBEE, GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW (1967).

<sup>30</sup> Barron, *supra* note 4, at 326–27; *see also* Beaumont, *supra* note 10, at 46.

<sup>31</sup> Barron, *supra* note 4, at 314; Beaumont, *supra* note 10, at 44.

<sup>32</sup> Provisional Regulations on the Protection of the Invention Right and the Patent Right (1950) *cited in* Wang, *supra* note 13, at 194 n.1 (citing 1 FALING HUBIAN 359 (1952)). An excellent chronological collection of the laws and regulations relating to patent rights prior to the enactment of the 1984 Patent Law appears in Wang's article. *Id.*

<sup>33</sup> Beaumont, *supra* note 10, at 45–46; Sidel, *supra* note 12, at 281. Mao held a hard line throughout his reign emphasizing that since all property belongs to the State, even if ideas are property, no person can own them, and any legal principle assigning individual ownership was ideologically unacceptable. *See* Beaumont, *supra* note 10, at 45–46. In general, the ideological perspective of the Mao era, especially during the preeminence of the Red Guard in the Cultural Revolution period, was anti-foreign, anti-development, and inward-looking. *See* FAIRBANK, *supra* note 2, at 395 (characterizing the Cultural Revolution as “anti-intellectualism accompanied by xenophobia”); Ross J. Oehler, Comment, *Patent Law in the People's Republic of China: A Primer*, 8 N.Y.L. SCH. J. INT'L & COMP. L. 451, 452 (1987); *see also* Barron, *supra* note 4, at 327.

After the overthrow of the "Gang of Four" in 1976<sup>34</sup> and the establishment of the Four Modernizations,<sup>35</sup> China's leadership changed its focus to encourage economic and industrial development and began a period of reform.<sup>36</sup> One element of the overall economic reform drive was an "Open Door" policy, which led to the passage of many new laws,<sup>37</sup> including measures to protect intellectual property consistently with laws of other nations. These reforms were intended to provide international investors with a level of confidence that their industrial products and processes would not be misappropriated by unscrupulous locals.<sup>38</sup>

Economic reform in any culture is generally not without political ramifications; China's experience has been no exception.<sup>39</sup> Not unexpectedly, China's internal modernization program raised expectations and created social tensions, which were elevated to a greater level because of the inherent conflict between burgeoning capitalist economic measures and the existing socialist political fabric.<sup>40</sup> The drive to industrialize required sending tens of thousands of Chinese to foreign universities, and enlisting the support of the established scientific intelligentsia.<sup>41</sup> Moreover, rapid advances in communications technology allowed direct contact between Chinese scientists

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<sup>34</sup> Wang, *supra* note 13, at 195. The Gang of Four, as they were colloquially known, assumed power after Mao's death. The group included Mao's widow and three of her cohorts in the Central Cultural Revolution Group. FAIRBANK, *supra* note 2, at 387.

<sup>35</sup> XIANFA (Constitution of the People's Republic of China) (1982), translated in 2 CHINA LAWS FOR FOREIGN BUSINESS, CHINA TRADE DOCUMENTS, ¶ 4-500 (CCH Australia 1989). The "Four Modernizations" are development of industry, agriculture, science and technology, and national defense, which the Third Plenary Session of the 11th Central Committee of the Communist Party of China decided should take precedence over the prior governments' emphasis on politics. Wang, *supra* note 13, at 202.

<sup>36</sup> Beaumont, *supra* note 10, at 39; Wang, *supra* note 13, at 202; Sidel, *supra* note 12, at 281.

<sup>37</sup> FAIRBANK, *supra* note 2, at 417. One example is the Economic Contract Law, enacted in 1981. Barron, *supra* note 4, at 328.

<sup>38</sup> Oehler, *supra* note 33, at 455; Wang, *supra* note 13, at 215-16. Wang quotes a Chinese legal scholar who surmised that the Patent Law was enacted "just for the sake of foreign patent holders." Wang, *supra* note 13, at 215-16 (citing Zheng, *The System of Intellectual Property and Our Country's Intellectual Property*, 4 ZHONGGUO FAXE (The Science of Chinese Law) 169 (1984)).

<sup>39</sup> Indeed, one commentator describes intellectual property protection in China as a "basic theoretical dilemma" for socialism. David Ben Kay, *The Patent Law of the PRC in Perspective*, 33 UCLA L. REV. 331, 342 (1985).

<sup>40</sup> One rationale for Tiananmen Square was the dichotomy between the relaxation of economic controls and the continued policing of nascent political expression. As Professor Fairbank states, "a market economy implied a free marketplace of ideas." FAIRBANK, *supra* note 2, at 421-22.

<sup>41</sup> *Id.* at 407.



and the international academic community, not to mention a flood of Western journalism and advertising, which placed the control-oriented Central Government under an international microscope.<sup>42</sup> Such exchanges invited negative comparisons by Chinese citizens between themselves and their more economically well-off Asian neighbors. Overall, China's growing pains have been similar to those of other developing countries where emerging socioeconomic classes begin seeking political empowerment. As one noted historian explained, "[w]hen a billion people 'take off' into industrialization, their economic growth cannot be prevented by the government. The question for rulers is how to achieve a complementary growth of the political system."<sup>43</sup>

In addition to limited political and social accommodations<sup>44</sup> relating to modernization and development, China also has had to make difficult decisions about economic policies. Given the threat of possible challenges to its sovereignty,<sup>45</sup> and the need to upgrade its industrial infrastructure and manufacturing capabilities, China lacked the luxury of spurring economic development solely by utilizing internal resources or strictly controlled foreign investment. Thus, since the "Four Modernizations"<sup>46</sup> of 1976, China adopted a number of policies and modified its legal system to encourage foreign trade and investment.<sup>47</sup> The Patent Law and its evolution since 1985 pro-

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<sup>42</sup> *Id.* at 422–23. Much of the world's information regarding events during and after Tiananmen Square came from facsimile transmissions (faxes) sent by supporters of the students bypassing measures by the Central Government to suppress normal channels of news. Students covertly faxed information about the events to overseas colleagues. Television broadcasts captured the world's attention, including one dramatic picture of a lone student halting a column of tanks. *Id.* at 301 (photograph insert opposite page).

<sup>43</sup> *Id.* at 406.

<sup>44</sup> Such accommodations include privatization of previously state-owned factories, limited free enterprise endeavors by private citizens, and increased scientific and academic exchanges. *See id.* at 407, 411, 415.

<sup>45</sup> Other countries in southeast Asia have demonstrated an increasing trend to arm themselves, which their economic prowess makes possible. For example, Taiwan's recently completed deal with the United States to purchase advanced F-16 fighter aircraft caused a near breakdown in diplomatic relations between China and the United States. *See Zhang Xiaodong, US Jet Sales Denounced Worldwide*, BEIJING REV., Sept. 21–27, 1992, at 15.

<sup>46</sup> The "Four Modernizations" as they are known colloquially, derive from language in the Preface to the 1982 Amendment to the Constitution of the People's Republic of China. *See supra* note 35.

<sup>47</sup> *See Beaumont, supra* note 10, at 40. The Foreign Economic Contract Law, which became effective July 1, 1985, is one example. DONG SHIZHONG ET AL., TRADE AND INVESTMENT OPPORTUNITIES IN CHINA 93 (1992). This law has been instrumental to the development of the capitalist market within China by providing a legal basis for joint ventures between foreign and domestic entities and collateralized loans from foreign banks. *Id.* at 95.

vide an illuminating example of how legal innovation engenders political accommodation.<sup>48</sup>

## II. CHINA'S ORIGINAL PATENT LAW

The Chinese leaders of the late 1970s and early 1980s who supported the goals of the Four Modernizations clearly recognized the utility of intellectual property protection as an incentive for economic development, as the first article of the Patent Law indicates.<sup>49</sup> Between 1980 and 1983, China sent dozens of envoys with legal, scientific, and political backgrounds to study extensively the patent laws and practices of various developed countries.<sup>50</sup> As a result, the Patent Law eventually enacted in China contained many features common to established patent laws in developed countries.<sup>51</sup>

In 1984, China passed a patent law that facially extended a level of protection to foreign patent holders similar to that of other internationally-accepted models.<sup>52</sup> Yet, complaints by U.S. patentees and other foreign patent holders of piracy and infringement by the Chinese continued through the 1980s.<sup>53</sup> In addition, China's administrative and judicial enforcement was relatively inexperienced.<sup>54</sup> In

<sup>48</sup> Although, as Professor Fairbank points out, mere industrial reforms cannot be called the "revival of capitalism, since the party and the state still called the tune and remained devoted to collectivism, that is, socialism." FAIRBANK, *supra* note 2, at 414.

<sup>49</sup> Patent Law, *supra* note 6, art. 1. Article 1 reads as follows: "[t]his Law is enacted to protect patent rights for inventions-creations, to encourage invention-creation, to foster the spreading and applications of inventions-creations, and to promote the development of science and technology, for meeting the needs of the construction of socialist modernization." *Id.* Zhou En-Lai was the foremost proponent of the Four Modernizations, but was blocked from implementing them by Mao during the Cultural Revolution. FAIRBANK, *supra* note 2, at 404; Beaumont, *supra* note 10, at 40. It was not until after the deaths of Zhou and Mao in 1976, and the rise to power of Deng Xiaoping, that the Four Modernizations were officially adopted by the Central Government. *Id.*

<sup>50</sup> Lionel S. Sobel, *Technology Transfer and Protection of Intellectual Property in China*, 12 *LOV. L.A. INT'L & COMP. L.J.* 61, 63 (1989). Among the nations visited were Canada, the United States, and European Community members. Sidel, *supra* note 12, at 282; Oehler, *supra* note 33, at 455.

<sup>51</sup> Sobel, *supra* note 50, at 63.

<sup>52</sup> The Chinese borrowed primarily from the patent laws of the United States, Germany and Canada. Oehler, *supra* note 33, at 456 (finding that the "[Chinese] Patent Law. . . does not differ drastically from United States Patent Law or that of the Paris Convention members."). *Id.*

<sup>53</sup> See *infra* notes 154-56 and accompanying text.

<sup>54</sup> Pinard, *supra* note 11, at 85; Wang, *supra* note 13, at 220-23. *But cf.* PATENT, TRADEMARK & COPYRIGHT LAW DAILY (BNA), Apr. 16, 1992, available in WESTLAW, BNA-PTD File (indicating that few cases reach the Chinese courts and that administrative solutions to disputes are swift and effective).

December 1991, the United States Trade Representative (USTR) responded to these complaints by instituting a Section 301 investigation of China's trade practices pursuant to the 1974 Trade Act.<sup>55</sup> After threats of sanctions by the USTR, China agreed to tighten up its intellectual property protection, and signed a Memorandum of Understanding (MOU) in January 1992 with the USTR.<sup>56</sup> In September 1992, the State Council approved an amendment to the Patent Law to address the complaints of foreign businesses and respond to its pledge as outlined in the MOU.<sup>57</sup>

#### A. *Beginning Steps to Intellectual Property Protection*

The first law protecting intellectual property after the Four Modernizations was the Trademark Law, adopted in 1983.<sup>58</sup> This law constituted a logical first step in dismantling China's isolationist policies.<sup>59</sup> In addition to enacting a Trademark Law, China took several other steps signifying its intention to meet international standards of intellectual property protection. In 1983, China joined the World Intellectual Property Organization, and signed the Paris Convention for the Protection of Industrial Property in 1984.<sup>60</sup>

The State Council approved the original Patent Law on March 12, 1984.<sup>61</sup> The stated purpose of the Patent Law was to facilitate foreign exchange, trade, and investment; stimulate and protect domestic

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<sup>55</sup> See 19 U.S.C. § 2411(c) (1988). The Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (codified in various sections of 19 U.S.C.), made significant amendments to the Trade Act of 1974. "Section 301" refers to sections 301-309 as amended in 1988. Pub. L. No. 93-618, 88 Stat. 2066 (codified at 19 U.S.C. §§ 2411-2487 (1988 & Supp. 1990)). Section 301 actions allow the U.S. Trade Representative to impose severe sanctions in the form of greatly increased tariffs on countries found to violate trade practices.

<sup>56</sup> See generally MOU, *supra* note 8.

<sup>57</sup> See generally Amendments, *supra* note 7.

<sup>58</sup> Trademark Law of the People's Republic of China (adopted by the 5th Nat'l People's Cong., 24th Sess. of the Standing Comm., Aug. 23, 1982), *translated in* 2 CHINA LAWS FOR FOREIGN BUSINESS, CHINA TRADE DOCUMENTS ¶ 11-500 (CCH Australia 1989).

<sup>59</sup> Joint ventures and capital investment typically require more preliminary investigation into logistical and financial matters as well as a foreign presence or organization in China. In contrast, importation merely requires a shipping destination, financing, and a level of confidence by the manufacturer that the product shipped under the mark is the product sold under the mark. A product or service mark is a symbol, word, design or even color that clearly distinguishes one producer's goods from similar goods by another producer. Infringing on a mark by copying it to pass off one's goods as another's or diluting the strength of a mark by using it in a similar or different context are issues of trademark and unfair competition law. See generally GOLDSTEIN, *supra* note 3, at 354-55.

<sup>60</sup> Pinard, *supra* note 11, at 69.

<sup>61</sup> Patent Law, *supra* note 6.

scientific research; encourage the introduction and use of new inventions; and bolster the socialist economy.<sup>62</sup> A Party spokesman described the Patent Law as an effort to encourage the "enthusiasm, creativity and inventiveness of the whole people."<sup>63</sup> Thus, China explicitly recognized that the grant of property rights could foster internal development by providing economic incentives to citizens.<sup>64</sup> Later announcements by the Party discussed the further goals of the Patent Law's grant of limited monopolies to domestic and foreign patentees to encourage international investment and disclosure of advanced technologies.<sup>65</sup>

The Patent Law is divided into eight chapters of sixty-nine articles. Chapter I establishes the general provisions, such as the protection of invention-creations,<sup>66</sup> the establishment of a patent office,<sup>67</sup> a first-to-file doctrine,<sup>68</sup> rights of assignment,<sup>69</sup> exclusive use<sup>70</sup> and fees,<sup>71</sup>

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<sup>62</sup> *Id.*; see *supra* note 49 for the text of article 1.

<sup>63</sup> *Daily Report China*, FOREIGN BROADCAST INFO. SERVICE, No. 136 at k9, July 13, 1984, available in LEXIS, Asiapc Library, Allasi File.

<sup>64</sup> *Id.* Curiously, remnants of the Pre-Mao era awards system still appear to be in use, suggesting that the 1963 Regulations on Inventions still retain force of law. One semi-official newsmagazine reported the granting of rewards for outstanding inventors such as \$36,000 and a Audi automobile in addition to a patent. *Handsome Rewards for Crackerjack Inventors*, BEIJING REV., Aug. 10-16, 1992, at 9.

<sup>65</sup> See Sidel, *supra* note 12, at 282 (quoting a speech by Ren Jianxin, Director, Legal Affairs Department, China Council for the Promotion of International Trade, and Vice President, Supreme People's Court, to the Chinese General Chamber of Commerce, in Hong Kong on September 29, 1980 (citations omitted)). In general, however, few commentaries appear to have been made by Chinese officials regarding the effects of the Patent Law on the social fabric, or what sorts of political accommodations would be necessary to handle the new socioeconomic classes of industrialists and petit bourgeoisie that inevitably would emerge as individuals and corporations were empowered with the means of production and capital accumulation.

<sup>66</sup> Invention-creations are defined as "inventions, utility models, and designs." Patent Law, *supra* note 6, art. 2. Utility models are defined as "minor technical and production improvements" and receive a shorter patent period (five years). *Id.* art. 45; Beaumont, *supra* note 10, at 49.

<sup>67</sup> Patent Law, *supra* note 6, art. 3.

<sup>68</sup> *Id.* art. 9. Compare China's first-to-file provision with the U.S. Patent Law, which provides that "A person shall be entitled to a patent unless. . . (g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it." 35 U.S.C. § 102(g) (1988). China's first-to-file approach is far more typical; only the United States and the Philippines follow a first-to-invent system. GOLDSTEIN, *supra* note 3, at 402. Professor Goldstein indicates that one reason the United States has opposed the first-to-file approach is a concern among some that a first-to-invent system protects against the theft of patents by those who would devote resources to early filing rather than invention. *Id.*

<sup>69</sup> Patent Law, *supra* note 6, art. 10.

<sup>70</sup> *Id.* art. 11.

<sup>71</sup> *Id.* art. 12.

marking rights,<sup>72</sup> and a provision that the Patent Office shall maintain the secrecy of applications prior to publication.<sup>73</sup>

Several articles within Chapter I relating to State control over foreign patentees have caused concern among international investors. For example, the State has the power to keep applications relating to the vital interests or security of the State secret.<sup>74</sup> In addition, article 14 empowers the State to appropriate and exploit any patent of a "Chinese individual or entity under collective ownership, which is of great significance to the interests of the state or to public interest."<sup>75</sup> These initial concerns have proved unwarranted, however, as no such actions have occurred to date.<sup>76</sup> Indeed, provisions such as article 18, which mandate the treatment of foreign applications pursuant to any bilateral or multilateral agreements to which China and the foreign applicant's country are a party,<sup>77</sup> may have been intended to assuage concerns of foreign investors raised by article 14. For example, the priority of foreign applicants who had filed up to one year earlier in a member country recognized by the Paris Convention would apply in China.<sup>78</sup>

Chapter II establishes the requirements for the grant of a patent right, following closely the U.S. Patent Law.<sup>79</sup> Thus, an invention or utility model must possess "novelty, inventiveness and practical applicability."<sup>80</sup> The Patent Law also provides a statutory bar for prior use of an identical invention if used or published in China or abroad before the application filing date and no retroactive patents are granted for inventions patented abroad before the Patent Law be-

<sup>72</sup> *Id.* art. 15.

<sup>73</sup> *Id.* art. 21.

<sup>74</sup> Patent Law, *supra* note 6, art. 4.

<sup>75</sup> *Id.* art. 14. Note that article 14, which has come under severe attack as a veiled compulsory licensing clause that threatens foreign investors, was not modified at all in the recent amendments, while the official Compulsory Licensing Chapter (articles 51–66) was significantly modified as agreed in the MOU of Jan. 17, 1992. See *infra*, notes 209–221 and accompanying text; see also Pinard, *supra* note 11, at 80–81.

<sup>76</sup> *Revised Patent Law Will Enter Into Force January 1*, PATENT, TRADEMARK & COPYRIGHT LAW DAILY (BNA), Oct. 26, 1992, available in WESTLAW, BNA-PTD File [hereinafter Lulin]. Gao Lulin, Director General of the Chinese Patent Office is quoted as saying "The Chinese government is very earnest about protecting the patentee. In the past seven years China did not grant any compulsory licenses. This is proof." *Id.*

<sup>77</sup> Patent Law, *supra* note 6, art. 18; see also Pinard, *supra* note 11, at 81.

<sup>78</sup> Patent Law, *supra* note 6, art. 29.

<sup>79</sup> Cf. 35 U.S.C. §§ 101, 102, 103 (1988) (describing the statutory requirements for novelty, utility, and non-obviousness).

<sup>80</sup> Patent Law, *supra* note 6, art. 22. A utility model is a term of art signifying a minor invention. See *supra* note 66.

came effective<sup>81</sup> (thus barring thousands of existing products from obtaining Chinese patents). Certain classes of items were not eligible for patents under the original law, such as foods, beverages, flavorings, pharmaceutical products, substances made by chemical process, or animal and plant varieties (bioengineered hybrids).<sup>82</sup> Chapters III–VIII deal with the application process;<sup>83</sup> examination and approval of patent applications;<sup>84</sup> the duration, cessation and invalidation of patent rights;<sup>85</sup> compulsory licensing;<sup>86</sup> protection of the patent right;<sup>87</sup> and supplementary provisions.<sup>88</sup>

### B. *Economic Effects*

The economic impact of the Patent Law has been impressive, at least on a relative scale.<sup>89</sup> The Patent Office has reported significant numbers of patent applications, which have increased in volume each year since 1985.<sup>90</sup> Foreign investment also has increased dra-

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<sup>81</sup> Patent Law, *supra* note 6, art. 23; Oehler, *supra* note 33, at 461. Compare the statutory bars in the U.S. Patent Act, which states:

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States. . . .

35 U.S.C. §§ 102(a), (b) (1988).

<sup>82</sup> Patent Law, *supra* note 6, art. 25.

<sup>83</sup> *Id.* arts. 26–33.

<sup>84</sup> *Id.* arts. 34–44.

<sup>85</sup> *Id.* arts. 45–50.

<sup>86</sup> *Id.* arts. 51–58.

<sup>87</sup> Patent Law, *supra* note 6, arts. 59–66.

<sup>88</sup> *Id.* arts. 67–69. The Supplementary Provisions include the requirement for a fee, notice that the Patent Office would be promulgating Implementing Regulations, and the effective date of the Patent Law. *Id.*

<sup>89</sup> The overall quantity of internal and external patent applications is small when compared to China's population and the number of applications filed annually by developed countries. In isolation, however, China's statistics on the pace of invention demonstrate impressive gains given the short time that the Patent Law has been in force.

<sup>90</sup> *China Amends Patent Law*, BEIJING REV., July 13–19, 1992, at 11–12. Internal patent applications totaled more than 230,000 from 1985 to 1992, approximately 30,000 of which were from foreign entities during the same period. *Id.* at 12. Of these applications, the Patent Office examined and approved approximately 100,000 patents. *Id.* In 1991, 45,395 domestic and 4,645 foreign patent applications were filed, with 1,620 of the latter from U.S. entities. *Statistics Show Sharp Increase in Patent, Trademark Applications*, PATENT, TRADEMARK & COPYRIGHT LAW DAILY (BNA), June 2, 1992, available in WESTLAW, BNA-PTD File.

matically since 1985.<sup>91</sup> The exact economic impact of the Patent Law is, of course, impossible to measure.<sup>92</sup> Since 1985, however, China's trade with the rest of the world has increased to more than \$50 billion and the Chinese economy currently is expanding at 12 percent annually.<sup>93</sup> Indeed, somewhat to the consternation of the United States, China's bilateral trade surplus in 1990 stood at \$10.4 billion, and was expected to rise to more than \$13 billion in 1991.<sup>94</sup> In summary, the Patent Law, despite alleged shortcomings,<sup>95</sup> seems not to have discouraged foreign investment and technology transfer. Questions remain, however, about unreported infringements and lost sales beyond the knowledge of the patent holders.<sup>96</sup>

### C. *Structural Defects of the Original Patent Law*

Beginning prior to the passage of the Patent Law and continuing to date, numerous scholarly articles have been written on the historical, social, and political dynamics of the Patent Law,<sup>97</sup> its structural defects and ambiguities,<sup>98</sup> and concerns of international inves-

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<sup>91</sup> For example, Amgen, a leading U.S. biotechnology firm, plans to market its flagship product Epogen directly to China and has received a Chinese patent. Robin Herman, *One Patented Gene's Astounding Success Story*, WASH. POST, June 16, 1992, at Z14. In addition, during a recent trip to China, the General Manager of DuPont announced that the company is interested in transferring advanced chemical technology to seventeen Chinese chemical companies. *DuPont Settles into Chinese Market*, BEIJING REV., Sept. 14-20, 1992, at 39.

<sup>92</sup> The difficulties of measurement and assignment are further complicated by the extraordinary growth of the Chinese economy since 1985. *China's 1992 GDP Increases by 12%*, BEIJING REV., Jan. 11-17, 1993, at 5. This increase may be deceiving because of pent up demand for industrial and consumer products within China and the onrush of investors to whom patent protection is not relevant.

<sup>93</sup> *Id.* The export value of industrial output from the Shenzhen Special Economic Zone, which increased from \$11 million in the early 1980s to approximately \$3 billion in the early 1990s, is a striking example of the rapid expansion of the Chinese economy. DONG, *supra* note 47, at 17.

<sup>94</sup> George White, *Opening Up China's Trade Market Apt to be Hard*, L.A. TIMES, Jan. 20, 1992, at 2.

<sup>95</sup> See *infra* part II, sec. C.

<sup>96</sup> Patentees in China do seem to have been able to press their infringement claims with some level of success, however. *Chinese Intellectual Property System Formed*, XINHUA (China News Agency), Oct. 29, 1992, available in LEXIS, Nexis Library, Xinhua File (reporting that over 2,500 patent disputes have been handled by China's courts in the last seven years [albeit with limited reporting of the parties or outcomes]).

<sup>97</sup> See, e.g., Barron, *supra* note 4; Beaumont, *supra* note 10; Wang, *supra* note 13; Janiece Marshall, *Current Developments in the People's Republic of China: Has China Changed?*, 1 TRANSNAT'L L. 505 (1988).

<sup>98</sup> See, e.g., Robert C.H. Lee, *China's New Technology Import Regulations*, 5 CHINA L. REP. 27 (1990); Hong Liu & Jun Wei, *Technology Transfer to China: The Patent System*, 5 SANTA CLARA COMPUTER & HIGH TECH. L.J. 363 (1989); P.D. Woods, *Trademark and Patent Law in the*

tors.<sup>99</sup> Generally, these defects can be categorized as subject matter limitations, process issues, excessive powers retained by the government, and enforcement difficulties.

### 1. Subject Matter Concerns

The original Patent Law sharply restricted the patentability of chemical products and pharmaceuticals in that only processes, but not products themselves, could receive patents.<sup>100</sup> This restriction was particularly problematic to parties wishing to import agricultural chemical products.<sup>101</sup> In addition, the Patent Law barred Chinese patents for inventions that already had been described in print or publicly used in another country prior to the application date in China, subject to the exceptions for priority filings provided by the bilateral treaty clause of article 18.<sup>102</sup>

Although such a novelty requirement for patents is typical,<sup>103</sup> the implication for foreign business entities was that they had to file in China first, or follow up with an application in China after filing in a Paris Convention member state within one year.<sup>104</sup> At the outset of the Patent Law, this procedure was both time-consuming and somewhat difficult given the inexperience of the Patent Office.<sup>105</sup> Moreover, foreigners have found China's internal laws relatively more difficult to employ than U.S. or European remedies.<sup>106</sup> Such difficulty

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*People's Republic of China*, 13 N.C. INT'L & COM. REG. 473 (1988); Liu Fengyun, *Some Aspects of the Protection of Industrial Property in China*, 4 CHINA L. REP. 155 (1987); Pinard, *supra* note 11; Oehler, *supra* note 33.

<sup>99</sup> See, e.g., Sobel, *supra* note 50; Zhou Chuanjie, *Protection of Intellectual Property Rights in China*, 12 LOY. L.A. INT'L & COMP. L.J. 68 (1989); Thomas Mesevage, Note, *The Carrot and the Stick: Protecting U.S. Intellectual Property in Developing Countries*, 17 RUTGERS COMPUTER & TECH. L.J. 421 (1991).

<sup>100</sup> Patent Law, *supra* note 6, art. 25. Many developing countries provide only limited patent protection for pharmaceuticals however, to encourage local industry to develop and advance. Beaumont, *supra* note 10, at 50; see also Marshall, *supra* note 97, at 521.

<sup>101</sup> Sidel, *supra* note 12, at 284 (citing Eliasoph, *China's Patent System Emerges*, CHINA BUS. REV., Jan.-Feb. 1985, at 51).

<sup>102</sup> Patent Law, *supra* note 6, art. 29.

<sup>103</sup> See, e.g., 35 U.S.C. §§ 102, 103 (1988). China's type of statutory bar on patentability has been termed "limited world novelty." Beaumont, *supra* note 10, at 52.

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

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

<sup>106</sup> Pinard, *supra* note 11, at 85, 87. Chinese courts originally were quite unfamiliar with foreign business transactions and especially with the more complex permutations of patent law. Although judges, attorneys, and officials of the Patent Office have been trained, the system had lacked the years of experience and solid body of case law that allows for speedy and accurate adjudication of disputes. Fortunately, disputes involving foreigners, such as patent



was probably due to foreigners' unfamiliarity with China's legal system and courts, and the somewhat ill-equipped state of the judicial system in China, which had been dismantled during the Cultural Revolution.<sup>107</sup>

A further problem was that, under article 2 of the Patent Law, a holder of a Chinese patent had no recourse legally if another person manufactured the patented product within a country where the patent holder did not have a patent and then imported the product to China.<sup>108</sup> Finally, the lack of trade secret laws in China basically forced foreigners who wished to protect their products to apply for a patent.<sup>109</sup>

## 2. Process Issues

Procedural criticisms begin with ambiguities in wording.<sup>110</sup> For example, the Patent Law defines "foreign applicants" as persons with no habitual residence or place of business in China, but neither residence nor place of business is specified in the Patent Law or the Implementing Regulations.<sup>111</sup> Such ambiguity leads to uncertainty among investors, especially joint venturers, who have a physical presence in China and often include transfer of their patented technology in the joint venture agreement.<sup>112</sup> Based on this ambiguity, the provisions of Chapter 14, regarding government appropriation, might apply to foreign applicants if they are deemed domestic due to their partnerships with domestic entities.<sup>113</sup>

Another problem was the distinction made in the Patent Law between a holder of a patent right and a full owner.<sup>114</sup> The former received lesser rights, especially in terms of ownership and enforcing infringement actions.<sup>115</sup> Furthermore, a joint ownership agreement

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infringement actions, cannot be held in the lowest level courts (People's Courts), but are relegated to the higher Intermediate People's Courts. *Id.* at 88.

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

<sup>108</sup> Chuanjie, *supra* note 99, at 72. *But see* Amendments, *supra* note 7, art. 11 (infringing imports now prohibited). *See infra* note 177 for the language of Amendment 11.

<sup>109</sup> Pinard, *supra* note 11, at 78. *But see* MOU, *supra* note 8, art. 4 (requiring China to adopt trade secret protection). *See infra* note 124 for the language of the MOU.

<sup>110</sup> *See* Liu, *supra* note 98, at 367.

<sup>111</sup> Patent Law, *supra* note 6, arts. 18, 19; *see also* Implementing Regulations of the Patent Law of the People's Republic of China, *translated in* 2 CHINA LAWS FOR FOREIGN BUSINESS, CHINA TRADE DOCUMENTS ¶ 11-603 (CCH Australia 1989).

<sup>112</sup> Pinard, *supra* note 11, at 79-81.

<sup>113</sup> *Id.*; *see also supra* notes 75-77 and accompanying text.

<sup>114</sup> Pinard, *supra* note 11, at 79.

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

between a Chinese entity and a foreign investor where patents were transferred might trigger the distinction between a mere holder and a full owner and limit a foreign participant's patent rights.<sup>116</sup>

Another criticism was that the Patent Law adopts a first-to-file system, in contrast to a first-to-invent system.<sup>117</sup> China's first-to-file approach, almost universally accepted by other countries,<sup>118</sup> was established to encourage inventions to enter the technology market "as early as possible."<sup>119</sup> This provision could be criticized as a rule that may be appropriate for domestic Chinese inventors, but is inappropriate for foreigners given their lack of access to the Patent Office and the Chinese judicial system.<sup>120</sup> Such criticism, however, is somewhat outdated, given the significant improvements in the staffing, training, and administration of the Patent Office since 1985.<sup>121</sup>

In addition, the practice of publishing patent applications before approval is granted has been sharply criticized because it fails to protect the applicant adequately.<sup>122</sup> The Patent Law requires that patent applications be published in an Official Gazette (government publication) before the patent is approved to afford those who might wish to oppose the patent an opportunity to file a claim.<sup>123</sup> Thus, even though article 21 requires Patent Office officials to maintain the secrecy of the application before publication, publication in the Gazette will disclose the invention to the public before approval, which may be a problem if the patent application is denied or successfully opposed.<sup>124</sup> Moreover, all applications are first an-

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<sup>116</sup> *Id.* at 79, 81.

<sup>117</sup> Patent Law, *supra* note 6, art. 9.

<sup>118</sup> All other countries with patent laws employ a first-to-file system except the United States and the Philippines. GOLDSTEIN, *supra* note 3, at 401-02.

<sup>119</sup> Fengyun, *supra* note 98, at 156.

<sup>120</sup> *See supra* note 106.

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

<sup>122</sup> Liu, *supra* note 98, at 368. The Patent Office publishes an Official Gazette both to disclose the contents of approved patents to the public and to allow interested parties to contest pending applications for patents. The original 1984 Patent Law provided a three month period to challenge the application before the pending patent was approved officially. Patent Law, *supra* note 6, art. 41.

<sup>123</sup> Patent Law, *supra* note 6, art. 41.

<sup>124</sup> *Id.* art. 34; *see also* Liu, *supra* note 98, at 368. Thus, the inventor whose application was denied lost the legal protection and economic benefit of retaining his invention as a trade secret, because China did not recognize trade secret law. Article 4 of the MOU, however, remedies this loophole with the following language:

1. For the purpose of ensuring effective protection against unfair competition as provided for in article 10bis of the Paris Convention for the Protection of Industrial

nounced for opposition during a three-month waiting period after initial approval of the patent, an administrative burden that creates inefficiency and an unnecessary delay in implementing the invention. The delay is consistent with the Patent Law to some extent however, because once a patent is granted, an infringer cannot challenge the validity of the patent in a counterclaim.<sup>125</sup>

### 3. Powers Retained by the State.

Another provision that has caused concern is the grant of power to the local governments to appropriate inventions. Pursuant to article 14, a Chinese governmental body can usurp or take ownership of inventions deemed to possess great significance to the state.<sup>126</sup> Although this provision seems contrary to the right of sole possession typically given to patent holders by other legal systems,<sup>127</sup> it is either a purposeful attempt to prevent warehousing of patents, which would undermine the aims of socialist modernization, or merely a holdover from the traditional principles of collectivism.<sup>128</sup> Article 14's wording does limit the appropriation power to "[a]ny patent of a Chinese individual or entity under collective ownership."<sup>129</sup> The concern has been whether patents of foreign joint ventures with Chinese entities would be swept within the ambit of this provision.<sup>130</sup>

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Property, the Chinese Government will prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the trade secret owner in a manner contrary to honest commercial practices including the acquisition, use or disclosure of trade secrets by third parties who knew, or had reasonable grounds to know, that such practices were involved in the acquisition of such information.

MOU, *supra* note 8, art. 4.

<sup>125</sup> Chuanjie, *supra* note 99, at 69.

<sup>126</sup> Patent Law, *supra* note 6, art. 14; *see also* Pinard, *supra* note 11, at 80. Pinard points out that the decision to allow appropriation from patent holders must be made by the State Council, which provides a check on local governments. Pinard, *supra* note 11, at 80.

<sup>127</sup> *See, e.g.*, 35 U.S.C. §§ 154, 261, 271 (1988).

<sup>128</sup> Pinard, *supra* note 11, at 80. This provision is most likely a holdover from China's socialist orientation towards collectivism, because it allows the local governments, not the Patent Office, to make such determinations. Contrast the U.S. Patent Law, which does not include any provision for the government to usurp patentable inventions. Given the broad scope of the sovereign power of eminent domain, however, the U.S. government could probably take an otherwise patentable invention from its rightful owner, although most likely subject to the Takings Clause. U.S. CONST. amend. V.

<sup>129</sup> Patent Law, *supra* note 6, art. 14.

<sup>130</sup> *See supra* note 109. One commentator asserts, however, that Chinese-foreign joint ventures are not Chinese entities or collective enterprises under the wording of article 14. Pinard, *supra* note 11, at 80.

A further provision of China's Patent Law, conceptually related to involuntary dissemination, is compulsory licensing.<sup>131</sup> Compulsory licensing encroaches on, or limits, the property rights of the inventor to exclude others from using his invention.<sup>132</sup> For example, contrary to U.S. law, a patentee actually must put the patent to use in China within three years or any person or entity can request a license.<sup>133</sup> The Patent Law states that if, "without any justified reason" a patentee fails to employ himself, or license, his patent, the Patent Office will grant a compulsory license if the person requesting the compulsory license demonstrates that he could not arrange a license with the patentee on "reasonable terms."<sup>134</sup> Just what constitutes reasonable terms is undefined in the Patent Law, however. Moreover, mere importation of patented products may not be sufficient under article 51 to constitute "working" the patent.<sup>135</sup> Upon such a request and showing, the Patent Office will grant a non-exclusive license and impose what it considers to be an equitable licensing fee.<sup>136</sup>

The purpose of this policy is to prevent the practice of stockpiling patents without using them. Although stockpiling is common in more developed countries like the United States, it is undesirable in a developing economy because it will retard development.<sup>137</sup> In addition, compulsory licensing also could be viewed as a trade-off between the need in a market economy for the certainty of exclusive proprietary rights and the lingering socialist principle of collective ownership.<sup>138</sup> In defense of China's compulsory licensing provisions, however, no approved patent has yet to be subjected to compulsory licensing,<sup>139</sup> and any such grant can be challenged in the courts.<sup>140</sup> If these provisions present any cause for concern based on collectivism principles, article 14 probably presents more problems for domestic inventors than for foreign investors, based on China's expressed desire to smooth the way for foreign technology transfer and

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<sup>131</sup> Patent Law, *supra* note 6, art. 51.

<sup>132</sup> *Id.*

<sup>133</sup> *Id.* art. 52.

<sup>134</sup> *Id.* art. 54.

<sup>135</sup> Pinard, *supra* note 11, at 83.

<sup>136</sup> Patent Law, *supra* note 6, arts. 56, 57.

<sup>137</sup> Beaumont, *supra* note 10, at 54.

<sup>138</sup> See Kay, *supra* note 39, at 336-38; Sidel, *supra* note 12, at 282. *But see* Wang, *supra* note 13, at 200-05 (advancing a well-reasoned argument that a society like China's based on collective ownership can allow proprietary rights in individuals without creating a fundamental contradiction).

<sup>139</sup> See Lulin, *supra* note 76.

<sup>140</sup> Patent Law, *supra* note 6, art. 58.

trade.<sup>141</sup> Finally, China's compulsory licensing provisions are not all that different from the rules of other countries, which call for forfeiture or revocation of patents that are granted but not worked.<sup>142</sup>

#### 4. Enforcement Difficulties

Under the Patent Law, foreign applications are governed by bilateral treaties, international conventions, and the principle of reciprocity.<sup>143</sup> Commentators have criticized the fact that there is no recognition of foreign patents,<sup>144</sup> and no protection within China unless a bilateral treaty already exists.<sup>145</sup> Moreover, due to ambiguous definitions, a foreign entity or joint venture might be designated domestic, thus subjecting its patent to the power of the government to transfer the patent rights.<sup>146</sup> An ameliorating influence exists in terms of the relations China has with the patentee's country of origin and the constraints of other treaties to which China is a signatory.<sup>147</sup>

Other enforcement difficulties abound. For example, some commentators contend that administrative remedies under the Patent Law and Implementing Regulations are unclear.<sup>148</sup> Problems also arise in using the Chinese courts to enforce patent rights,<sup>149</sup> which have been exacerbated by the paucity of lawyers in general, and especially those trained in patent law.<sup>150</sup> Finally, investors and patent-

<sup>141</sup> Beaumont, *supra* note 10, at 39.

<sup>142</sup> *Id.* at 54.

<sup>143</sup> Patent Law, *supra* note 6, art. 18.

<sup>144</sup> Oehler, *supra* note 33, at 460-61 (citing *China's Developing Legal Structure for Trade and Commerce: Hearings Before the Special Subcomm. on U.S. Trade with China of the House Comm. on Energy and Commerce*, 98th Cong., 2d Sess. 32, 69-70 (1987) (written statement of John J. Byrne and Eugene Theroux)).

<sup>145</sup> Pinard, *supra* note 11, at 70.

<sup>146</sup> *Id.* at 81.

<sup>147</sup> Sidel, *supra* note 12, at 285. For example, China is a signatory to the Paris Convention and accepts the Convention's novelty requirements and priority dates provisions. Pinard, *supra* note 11, at 73. China is no longer a signatory to the General Agreement on Tariffs and Trade (GATT) but is working to reenter that agreement. *China's Revised Patent Law Conforms to International Standards*, *Official Says*, Int'l Trade Rep. (BNA) (Sept. 16, 1992) [hereinafter Revised Patent Law].

<sup>148</sup> Pinard, *supra* note 11, at 85.

<sup>149</sup> For example, inexperience with patent matters and the intermediate court's sole jurisdiction over foreigners are discussed in the literature. See *id.* at 87. Original jurisdiction for patent infringement actions lies with the Intermediate People's Courts. Chuanjie, *supra* note 99, at 69. In addition, appeals to the higher People's Courts are available. *Id.* Interestingly, if the defendant counterclaims that the patent is invalid, the action is suspended and referred to the Patent Office for a final decision regarding validity. *Id.*

<sup>150</sup> *Reforms Demand More Lawyer Services*, BEIJING REV., Sept. 21-27, 1992, at 11-12.

ees complain that infringement actions are weak, since a non-licensor can use a patented product freely for scientific research or experimentation, and secondary use or sale is not infringement.<sup>151</sup> In fact, under the Patent Law, unauthorized use or sale is exempt from legal prosecution for infringement without a showing of actual knowledge of infringement, which is an almost impossible burden of proof.<sup>152</sup> In addition, infringement penalties only accrue after the patent has been granted, but not for any infringement in the period before the grant and after the application has been filed.<sup>153</sup>

#### D. *The Gathering Storm Before the Amendments to the Patent Law*

Although foreign investors and companies initially reacted positively to the enactment of the Patent Law, entities actually entering or desiring to enter the Chinese market reported continuing problems between 1985 and 1991.<sup>154</sup> Specifically, U.S. trade officials estimated that the total annual loss due to industrial piracy and patent infringement by the Chinese neared \$400 million.<sup>155</sup> Reports from academia appeared to substantiate the problem.<sup>156</sup> In separate analyses performed during 1988, the United States International Trade Commission (USITC)<sup>157</sup> and the U.S. Department of State<sup>158</sup> also

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<sup>151</sup> Patent Law, *supra* note 6, art. 62; *see also* Pinard, *supra* note 11, at 85–86; Beaumont, *supra* note 10, at 55; Liu, *supra* note 98, at 378. Liu points out that “the issuance of a patent is not considered constructive notice!” Lui, *supra* note 98, at 375.

<sup>152</sup> Pinard, *supra* note 11, at 86.

<sup>153</sup> *Id.* at 77–78.

<sup>154</sup> Unspecified problems with Chinese patent laws were reported to Congress by U.S. companies doing business in the Far East during debates on the United States-China Trade Act of 1992. 138 CONG. REC. E2386 (daily ed. Aug. 5, 1992) (statement of Rep. Gilchrist). In addition, the Pharmaceuticals Manufacturers Association has estimated that U.S. companies lost between \$245–305 million annually as a result of piracy of their pharmaceutical products. Richard Seltzer, *Intellectual Property Pact to Protect United States Chemicals in China*, CHEM. & ENG’R NEWS, Jan. 27, 1992, at 4, available in WESTLAW, Asia-Pacif File. For example, Monsanto Corp. reported that its patented pesticides Roundup, Lasso, and Machete were all being illegally fabricated in China in 1991. *Id.*

<sup>155</sup> Stuart Auerbach, *China, U.S. Reach Trade Accord*, WASH. POST, Jan. 17, 1992, at a24.

<sup>156</sup> William P. Alford, *Pressuring the Pirate*, L.A. TIMES, Jan. 12, 1992, at 5. Mr. Alford is the Henry Stimson Professor of Law and director of East Asian Legal Studies at Harvard Law School. Professor Alford remarks in the article that “China is, indeed, at the forefront of nations pirating intellectual property.” (mentioning illegal copies of everything from Mickey Mouse to computers, clothing, and chemicals). *Id.*

<sup>157</sup> U.S. Int’l Trade Comm., *Foreign Protection of Intellectual Property Rights and The Effect on U.S. Industry and Trade*, USITC Pub. 2065, (Feb. 1988) [hereinafter USITC Report].

<sup>158</sup> INTELLECTUAL PROPERTY SEGMENT: STATE DEPARTMENT COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES, Jan. 31, 1989, (monograph), *microformed on* Cong. Index (CCH).

found significant problems with the enforcement of U.S. intellectual property rights by China, which were causing a deleterious effect on U.S. trade.

These private and governmental reports, and similar complaints to the USTR, led to a Section 301 investigation as well as listing China as a priority country in 1991.<sup>159</sup> In finding adequate evidence to support the unfair trade practice claims, the USTR in late 1991 threatened China with the imposition of increased duties on \$1.5 billion of Chinese imports to the United States.<sup>160</sup> As part of the notification of the impending tariffs, the USTR set a deadline of January 17, 1992 for representatives of the Chinese government to meet with U.S. officials and commit to major reforms of China's protection of intellectual property, specifically the Patent Law.<sup>161</sup> The two governments negotiated an agreement to improve intellectual property protection scant hours before the deadline and issued a Memorandum of Understanding (MOU).<sup>162</sup>

The Chinese negotiators agreed to draft amendments to the Patent Law, submit these amendments to their legislative body, and undertake their best efforts to assure passage by January 1, 1993.<sup>163</sup> Later reports out of China indicating the government's diligence underscored the remarkable level of concern that the leadership has developed for foreign trade and economic matters.<sup>164</sup> The negotiators submitted the proposed amendments to the Standing Committee of the National People's Congress on June 23, 1992.<sup>165</sup> The amendments were adopted on September 4, 1992,<sup>166</sup> only seven and one-half months after the MOU, a remarkably rapid legislative effort.

Meanwhile, during July and August of 1992, the U.S. Congress intensely debated the United States-China Trade Act of 1992,<sup>167</sup>

<sup>159</sup> See *supra* text accompanying note 55; see also 19 U.S.C. § 2411(c).

<sup>160</sup> Auerbach, *supra* note 155. The increased duties would have doubled tariffs on \$1.5 billion of goods. *Id.* Such an increase probably would have had the effect of preventing these imports into the United States.

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

<sup>162</sup> MOU, *supra* note 8. The provisions relevant to the proposed PRC Patent Law revisions are contained in article 1 of the MOU, the text of which appears in Appendix A.

<sup>163</sup> MOU, *supra* note 8, art. 1, ¶ 2.

<sup>164</sup> See Conventions, *supra* note 2 (quoting Gao Lulin, director general of the Chinese Patent Office, remarking on the speedy presentation of the Amendments to the Standing Committee, and saying: "This represents how the Chinese Government keeps its promise."). *Id.*

<sup>165</sup> Amendments, *supra* note 7.

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

<sup>167</sup> United States-China Trade Act, H.R. 5318, 102d Cong., 2d Sess. (1992). The United

which contemplated stripping China of most-favored-nation (MFN) trade status.<sup>168</sup> Given what China stood to lose by removal of MFN status in terms of trade benefits and reputation, and its recognition of the lingering political impediment to trade relations created by the Tiananmen Square incident, the debates in the U.S. Congress probably had a strong effect on the Chinese leadership. The rapid implementation of the Patent Law amendments was clearly an attempt to broadcast a message of good faith and fair dealing to assuage the anti-China lobby in Congress and to prevent a stumbling block to China's stunning economic growth of recent years.

### III. AMENDMENTS TO THE PATENT LAW

The Amendments to China's Patent Law, which became effective January 1, 1993,<sup>169</sup> affected nineteen of the original sixty-nine articles of the Patent Law.<sup>170</sup> In general, the amendments followed the letter of the compromises ironed out in the MOU<sup>171</sup> and complied with the spirit of the MOU to an extent that would have been unthinkable to the Chinese leadership even ten years ago.

The following chart presents a summary view of the evolution of China's law dealing with the protection of patents. Column A lists defects in the original Patent Law as reported in the academic literature and by international investors.<sup>172</sup> Column B lists items subject to the MOU.<sup>173</sup> Column C lists provisions modified by the recent amendments.<sup>174</sup> Note that China enacted a number of modifications beyond the terms of the MOU, indicating that the Chinese

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States-China Trade Act was a new piece of legislation which sought to define certain privileges and practices of trade relations between the two countries, such as tariffs and most-favored nation (MFN) status. (MFN status merely means that a country receives the lowest available tariff structure.) This legislation proposed to remove China's MFN status. *Id.* Although the purported rationale for the legislation was piracy of intellectual property, most observers decried the removal of MFN status as political retribution for the Chinese government's suppression of the student protest movement in Tiananmen Square earlier in 1989.

<sup>168</sup> Members of the House claimed exporters were seeing patents abused by "unscrupulous Chinese." 138 CONG. REC. S15913 (daily ed. Oct. 1, 1992) (statement of Sen. Glenn). President Bush vetoed the House's withdrawal of MFN status for China as an inappropriate linkage to China's improving human rights and political retribution for Tiananmen Square. *See id.* (statement of Sen. Shelby presenting message of Pres. Bush).

<sup>169</sup> *Patent Law Revisions Include Expansion of Patentable Goods*, PATENT, TRADEMARK & COPYRIGHT DAILY (BNA), Nov. 18, 1992, available in WESTLAW, BNA-PTD File.

<sup>170</sup> Amendments, *supra* note 7.

<sup>171</sup> *See id.*

<sup>172</sup> *See supra* part II, sec. C.

<sup>173</sup> *See* MOU, *supra* note 8.

<sup>174</sup> *See* Amendments, *supra* note 7.



have been sensitive to academic criticism and seem dedicated to providing a greater level of protection for foreign investors.<sup>175</sup> China clearly used the opportunity of amending the Patent Law to respond to perceived structural defects in the Patent Law that had not risen to the level of significance to be required by the MOU.

A Defects Identified In the 1984 Law	B Changes Required by MOU	C Amendments Enacted
17-year patent term (not criticized)	20-year patent grant	20-year patent grant
Nonpatentability of chemicals & pharmaceuticals	Modify to allow as patentable subject matter	Made patentable (limited retroactive coverage)
Novelty (patent barred if previously granted elsewhere)	Not required by MOU	12 month grace period Limits disclosure manner
"Foreign" applicants ambiguity	Not required by MOU	No amendment
First-to-file system	Not required by MOU	No amendment
Publication of applications within 18 months	Not required by MOU	Publication at end of 18 months
Involuntary disseminations (article 14)	Not required by MOU	Limited to "except as provided by law"
Compulsory licensing (obligation to employ patent)	Reasonable efforts to employ	Amendment added
Bilateral treaty requirements	Not required by MOU	Not amended
Administrative remedies unclear	Not required by MOU	Not amended
Inexperience of Chinese courts	Not required by MOU	Not amended
Few examiners & patent attorneys	Not required by MOU	Not amended
Secondary use/sale exception	Not required by MOU	Not amended
Imports of infringing products (article 11)	Include right to prevent infringing imports	Right to prevent included
Burden of proof for infringement on Plaintiff	Shift to Defendant	Shifted (article 60)

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<sup>175</sup> Many of the criticisms made in the academic literature were ignored in both the MOU and Amendments. The primary concerns of investors, however, such as subject matter limitations and compulsory licensing, were addressed. This approach indicates China's pragmatic motivation and desire for a workable, rather than theoretically ideal law.

### A. Chapter I Amendments

In Chapter I, *General Provisions of the Patent Law*,<sup>176</sup> the Amendments modified article 11 which deals with exclusivity.<sup>177</sup> The original Patent Law made the patentee's exclusive right to exploit the patent subject to the constraints of article 14.<sup>178</sup> The Amendments delete the reference to article 14, and substitute the phrase "except as provided by law," indicating a weakening of the power of the authorities to invoke the compulsory licensing aspects of article 14 against foreign investors, such as joint ventures with domestic collective enterprises that would be subject to article 14. The new phraseology also seems to indicate that the power to invoke article 14 would be subject to judicial review, because the Chinese intermediate courts have jurisdiction over disputes pertaining to foreigners under Chinese laws.<sup>179</sup>

The Amendments also add a new paragraph to article 11, empowering the patentee to "stop others from importing the patented product or products directly obtained by applying the patented process. . . without the patentee's authorization."<sup>180</sup> This modifica-

<sup>176</sup> Chapter I consists of articles 1–21. Patent Law, *supra* note 6, art. 1.

<sup>177</sup> *Id.* art. 11. Article 11 reads as follows:

After the granting of the patent right for an invention or utility model, except as provided for in Article 14 of this Law, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make, use or sell the patented product, or use the patented process, for production or business purposes.

After the granting of the patent right for a design, no entity or individual may, without the authorization of the patentee, exploit the patent, that is, make or sell the product, incorporating the patented design, for production or business purposes.

*Id.* (Emphasis indicates amended language.)

<sup>178</sup> *Id.* Article 14 empowers the Central Government or the governments of the provinces, autonomous regions, and municipalities to require patents held by Chinese nationals or collective entities to be licensed to designees of those governments, where the patent is of great significance or importance to the state or public interest. *Id.* art. 14; *see supra* notes 122–26 and accompanying text.

<sup>179</sup> *See supra* note 105.

<sup>180</sup> Amendments, *supra* note 7, art. 11. The amendment reads as follows:

After a patent right is granted for an invention or utility model, except as provided for by law, no entity or individual may, without the patentee's authorization, manufacture for production or business purposes, utilize or sell the patented product, or make use of a patented process, or use or sell a product directly obtained by applying the patented process.

After a patent right is granted for a design, no entity or individual may, without the patentee's authorization, manufacture for production or business purposes or sell products of the patented design.

tion has the effect of protecting domestic patentees, whether Chinese patentees, joint venturers, or foreign entities with assigned patent rights, from outside infringement. These amendments address the spirit of constraining the potential impact of compulsory licensing detailed in the MOU<sup>181</sup> and specifically incorporate the clarification of the right to exclude others from using a patented process, including the additional right to exclude infringing imports specified in the MOU.<sup>182</sup>

## B. Chapter II Amendments

The Amendments to Chapter II, *Patent Grant Requirements*,<sup>183</sup> affected article 25, which originally excluded from patentability foods, beverages and flavorings, and pharmaceutical products and substances obtained by means of a chemical process.<sup>184</sup> Pursuant to the MOU,<sup>185</sup> all of these categories have been eliminated from the exclusionary list by the Amendments to the Patent Law.<sup>186</sup> The lack of patent protection for pharmaceuticals and chemicals had been a major concern for foreign investors,<sup>187</sup> especially given the severe losses foreign drug and industrial chemical manufacturers had suf-

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After the grant of a patent right, except as provided by law, the patentee shall have the right to stop others from importing the patented product or products directly obtained by applying the patented process for usage mentioned in the two preceding paragraphs without the patentee's authorization.

*Id.*

<sup>181</sup> MOU, *supra* note 8, art. 1(d). See *infra* Appendix A for full text of the MOU.

<sup>182</sup> *Id.* art. 1(b).

<sup>183</sup> Chapter II consists of articles 22–25, which define the subject matter of patents.

<sup>184</sup> Patent Law, *supra* note 6, arts. 25(4), 25(5). The text of article 25 reads as follows:

For any of the following, no patent right shall be granted:

- (1) Scientific discoveries;
- (2) Rules and methods for mental activities;
- (3) Methods for the diagnosis or for the treatment of diseases;
- (4) *Food, beverages and flavorings*;
- (5) *Pharmaceutical products and substances obtained by means of a chemical process*;
- (6) Animal and plant varieties;
- (7) Substances obtained by means of nuclear transformation.

For processes used in producing products referred to in items (4) to (6) of the preceding paragraph, patent right may be granted in accordance with provisions of this Law.

*Id.* (Emphasis indicates sections deleted by amendments.)

<sup>185</sup> MOU, *supra* note 8, art. 1(a).

<sup>186</sup> Amendments, *supra* note 7, art. 25.

<sup>187</sup> See *supra* notes 101–02 and accompanying text.

ferred by unauthorized fabrication of their products by Chinese companies.<sup>188</sup>

The provisions for patentability of drugs and other chemicals, such as agricultural products, are a major concession by China, given that this policy runs counter to the practice of newly developing countries to prevent excessive dependence and encourage local development.<sup>189</sup> The major problem with this Amendment is that it is not retroactive, except as regards chemicals and drugs that received patents after January 1, 1986 and already have been marketed in China.<sup>190</sup> Thus, only products of this sort that have not been "marketed" (which some cynics might define as those not already copied) in China receive "administrative protection" under the terms of the MOU.<sup>191</sup>

### C. Chapter III Amendments

In Chapter III, *Application for Patent*,<sup>192</sup> articles 29, 30, and 33 were amended. Article 29, which defines the right of priority,<sup>193</sup> now extends the right of priority to cover designs as well as the invention-creations and utility models covered in the original law.<sup>194</sup> Ad-

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<sup>188</sup> See *supra* notes 148–52 and accompanying text. Pharmaceutical companies especially had been victimized by infringement on their patents by various manufacturers in southeast Asia. See generally USITC Report, *supra* note 157.

<sup>189</sup> See SHERWOOD, *supra* note 22, at 159; Liu, *supra* note 98, at 382; see also Beaumont, *supra* note 10, at 49–50 (citing public policy reasons to restrict patenting pharmaceuticals).

<sup>190</sup> MOU, *supra* note 8, art 2; *Revised Patent Law*, *supra* note 147.

<sup>191</sup> MOU, *supra* note 8.

<sup>192</sup> Chapter III consists of articles 26–33. Patent Law, *supra* note 6.

<sup>193</sup> *Id.* The "right of priority" refers to the grace period extended to right holders who have filed a patent for an invention in a foreign country. Such a filing creates a grace period of 12 months against other potential filers in which to file for a patent in China. This provision is common to other patent systems in use around the world. See, e.g., 35 U.S.C. § 119 (1988).

<sup>194</sup> Patent Law, *supra* note 6, art. 29. The text reads as follows:

Where any foreign applicant files an application in China within 12 months from the date on which he or it first filed in a foreign country an application for a patent for the identical invention or utility model, or within six months from the date on which he or it first filed in a foreign country, an application for a patent for the identical design, he or it may, in accordance with any agreement concluded between the country to which he or it belongs and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of mutual recognition of the right of priority, enjoy a right of priority, that is, the date of which the application was first filed in the foreign country shall be regarded as the date of filing.

ditionally, the shorter statutory period for the right of priority has been dropped.<sup>195</sup> Originally, the right of priority was eliminated if the inventor displayed the item at an international exhibition, publicly aired it at an academic or technical meeting, or if the invention was disclosed by any person, even without consent of the applicant.<sup>196</sup> This amendment thus conforms more closely to international standards regarding due diligence by the inventor as to filing and eliminates the burdensome condition of the grace period being nullified by unscrupulous advance disclosures.<sup>197</sup>

Article 30, which also relates to the right of priority, was modified to require submission in China within three months of the application filed in the foreign country.<sup>198</sup> The original Patent Law required

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Where the applicant claims a right of priority and where one of the events listed in article 24 of this law occurred, the period of the right of priority shall be counted from the date on which the event occurred.

*Id.*

<sup>195</sup> Amendments, *supra* note 7, art. 29. The amended text reads as follows:

If an applicant files an application in China within 12 months from the date on which they first filed an application in a foreign country for a patent for the identical invention or utility model, or within six months from the date on which they first filed in a foreign country, an application for a patent for the identical design, they may, in accordance with any agreement concluded between that foreign country and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of mutual recognition of the right of priority, enjoy a right of priority.

If an applicant files an application with the Patent Office within 12 months from the date on which they first filed in China for a patent for the identical invention or utility model, they may enjoy a right of priority.

*Id.*

<sup>196</sup> Patent Law, *supra* note 6, art. 24. The text of article 24 reads as follows:

An invention-creation for which a patent is applied does not lose its novelty where, within six months before the date of filing, one of the following events occurred:

- (1) Where it was first exhibited at an international exhibition sponsored or recognized by the Chinese Government;
- (2) Where it was first made public at a prescribed academic or technological meeting;
- (3) Where it was disclosed by any person without the consent of the applicant.

*Id.*

<sup>197</sup> See, e.g., 35 U.S.C. § 102(g) (1988).

<sup>198</sup> Amendments, *supra* note 7, art. 30. Article 30 now reads as follows:

Any applicant who claims the right of priority shall make a written declaration when the application is filed and submit within three months a copy of the first-submitted patent application document; if the applicant fails to make the written declaration or to meet the time limit for submitting the document, the claim to the right of priority shall be deemed not to have been made.

*Id.*

a written declaration of the filing date in the foreign country certified by an official of that country in addition to the submission of the actual application within three months.<sup>199</sup> This modification thus streamlines the application process in China for foreign inventors and creates a domestic right of priority. Regarding other amendments to this chapter, the changes to article 33 merely clarify the language of the patent amending process, and do not include substantive legal modifications.<sup>200</sup>

#### D. Chapter IV Amendments

Amendments to Chapter IV, *Examination and Approval of Application for a Patent*,<sup>201</sup> affect articles 34, 39, 40, 41, 43, and 44. Article 34, concerning the publication of applications, now requires the Patent Office to publish a conforming application at the expiration of eighteen months, rather than within eighteen months, as originally mandated.<sup>202</sup> The Amendments ignore the problem of applications that are not approved within eighteen months, however, thereby exposing the applicant to undesirable public disclosure before the extension of patent protection. The volume of patent applications in China, already increasing exponentially,<sup>203</sup> may compound the problem of undesired disclosures as a function of the operation of the Law. Patent officials in China are not blind to the problem, however, and have announced plans to train and employ more staff to process patent applications expeditiously and prevent applications from overwhelming the resources of the Chinese Patent Office.<sup>204</sup>

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<sup>199</sup> Patent Law, *supra* note 6, art. 30.

<sup>200</sup> Amendments, *supra* note 7, art. 33. This article establishes that the applicant cannot exceed the scope of the invention-creation, utility model or design as stated or depicted in the original application. Cf. 35 U.S.C. § 132 (1988) (establishing a similar constraint upon amended patent applications).

<sup>201</sup> Chapter IV consists of articles 34–44. Patent Law, *supra* note 6.

<sup>202</sup> Amendments, *supra* note 7, art. 34. The original text of article 34 reads as follows:

Where, after receiving an application for a patent for invention, the Patent Office, upon preliminary examination, finds the applications to be in conformity with the requirements of this Law, it shall publish the application within 18 months from the date of filing. Upon the request of the applicant, the Patent Office may publish the application earlier.

Patent Law, *supra* note 6, art. 34.

<sup>203</sup> See *supra* note 91.

<sup>204</sup> *Reforms Demand More Lawyer Services*, BEIJING REV. Sept. 21–27, 1992, at 11–12.

Articles 39<sup>205</sup> and 40<sup>206</sup> relate to the examination of the application as to substance.<sup>207</sup> The Amendments allow the Patent Office to issue the patent, register the patent, and notify the applicant.<sup>208</sup> The original Patent Law neglected to include the issuance and registration process before notifying the applicant.<sup>209</sup> The amendment to article 41 extends the statutory period for filing an objection to a patent grant from three months to six months, simplifies the opposition filing requirements, and removes the requirement that the Patent Office notify the patentee before reaching a decision.<sup>210</sup> Revised article 43 expands the services of the existing Patent Re-examination Board to include filings by parties opposing a patent or appealing a rejection.<sup>211</sup> The Amendments also add completely new language to article 44, establishing that “[a] cancelled patent right shall be regarded as if it had never existed.”<sup>212</sup> This provision apparently responds to a desire by the government to allow immediate use by interested parties of information disclosed by a patent application that does not rise to the level of patentability.

#### E. Chapter V Amendments

Chapter V of the Patent Law, *Duration, Cessation and Invalidation of Patent Right*, consists of articles 45–50. The Amendments affected articles 45, 48, and 50. Pursuant to the MOU,<sup>213</sup> the Amendments modified article 45 to extend the duration of the patent right for invention-creations from seventeen to twenty years, and the duration of the patent right for utility models and designs from five to ten

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<sup>205</sup> Patent Law, *supra* note 6, art. 39. This article reads as follows: “Where it is found after examination as to substance that there is no cause for rejection of the application for a patent for invention, the Patent Office shall make a decision, announce it, and notify the applicant.” *Id.*

<sup>206</sup> *Id.* art. 40. Article 40 reads as follows:

Where, after receiving the application for a patent for utility model or design, the Patent Office finds upon preliminary examination that the application is in conformity with the requirements of this Law, it shall not proceed to examine it as to substance but shall immediately make an announcement and notify the applicant.

*Id.*

<sup>207</sup> Substance indicates that the application meets the statutory tests for novelty, inventiveness, and other disclosure bars.

<sup>208</sup> Amendments, *supra* note 7, arts. 39, 40.

<sup>209</sup> See Patent Law, *supra* note 6, arts. 39, 40.

<sup>210</sup> Amendments, *supra* note 7, art. 41.

<sup>211</sup> *Id.* art. 43.

<sup>212</sup> *Id.* art. 44.

<sup>213</sup> MOU, *supra* note 8, art. 1(c).

years.<sup>214</sup> Because the statutory period still runs from the filing of the application rather than the granting of the patent,<sup>215</sup> this amendment is a useful response to the problem of administrative delays. In addition, a twenty-year patent term better accommodates the sometimes lengthy procedures involved with human testing and registration of agrichemicals and pharmaceuticals.

Article 48 was altered to limit the period in which opposition to a patent could be brought before the Patent Re-examination Board.<sup>216</sup> Originally, anyone could challenge the validity of a patent with no statute of limitations period after the original grant of approval; the Amendments now limit the challenge period to six months after the announcement of the patent grant.<sup>217</sup> Thus, a more efficient system of a post-grant administrative revocation period replaces the problematic pre-grant opposition period. Interestingly, this new provision seems contrary to the policy reasons for allowing an unlimited period in which to challenge patents because society has an interest in reducing the number of patents in force, given the near-monopolistic level of power patents afford to entities.

Article 50, which is similar to article 44, states that any patent deemed invalid will be considered non-existent from the beginning.<sup>218</sup> The Amendments added language, however, stating that such a decree of invalidity will not have any *ex post facto* effect on a judicial or administrative ruling of infringement and any penalties assessed thereof.<sup>219</sup>

#### F. Chapter VI Amendments

Chapter VI, *Compulsory License for Exploitation of Patent Right*, consists of articles 51–58, of which articles 51 and 52 were modified. The most substantive and extensive changes to the Patent Law agreed to in the MOU concerned compulsory licensing.<sup>220</sup> Originally, the Patent Law established an unconditional use requirement

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<sup>214</sup> Amendments, *supra* note 7, art. 45.

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

<sup>216</sup> *Id.* art. 48. The original article 48 read as follows: "[w]here after the grant of the patent right, any entity or individual considers that the grant of the said patent right is not in conformity with the provisions of this Law, it or he may request the Patent Re-examination Board to declare the patent right invalid." *Id.*

<sup>217</sup> *Id.*

<sup>218</sup> Patent Law, *supra* note 6, art. 50.

<sup>219</sup> Amendments, *supra* note 7, art. 50.

<sup>220</sup> MOU, *supra* note 8, art. 1(d).



for all patents granted in China,<sup>221</sup> and further defined the use requirement by granting power to the Patent Office to issue a license to a requesting entity where the use had not taken place.<sup>222</sup> Commentators had interpreted this Chapter as a limit on the exclusive right to exploit an invention, while retaining the economic incentive of compensation for invention.<sup>223</sup> Compulsory licensing, although commonly used by other countries,<sup>224</sup> especially developing economies,<sup>225</sup> is anathema to the U.S. system of intellectual property protection based on principles of property law, free enterprise, and prevention of government intervention.<sup>226</sup> The MOU clearly reflects that philosophy.<sup>227</sup>

Pursuant to the MOU,<sup>228</sup> the Amendments scaled back the unconditional nature of the original compulsory licensing power and incorporated the concepts of reasonable efforts to license<sup>229</sup> and determination of the individual merits of each licensing request.<sup>230</sup> In addition, importing patented products now satisfies the use re-

<sup>221</sup> Patent Law, *supra* note 6, art. 51. The text of article 51 read as follows: “[t]he patentee himself or itself has the obligation to make the patented product, or to use the patented product, in China, or otherwise to authorize other persons to make the patented product, or use the patented process, in China.” *Id.*

<sup>222</sup> Patent Law, *supra* note 6, art. 52. The text of article 52 read as follows:

Where the patentee of an invention or utility model fails, without any justified reason, by the expiration of three years from the date of the grant of the patent right, to fulfill the obligation set forth in article 51, the Patent Office may, upon the request of an entity which is qualified to exploit the invention or utility model, grant a compulsory license to exploit the patent.

*Id.*

<sup>223</sup> Wang, *supra* note 13, at 200.

<sup>224</sup> *Id.* at 210.

<sup>225</sup> See SHERWOOD, *supra* note 22, at 159.

<sup>226</sup> U.S. anti-trust laws, however, may provide the same economic result as compulsory licensing by indirectly preventing the accumulation and non-licensing of technology that results in excessive dominance by one entity of a market niche. See Wang, *supra* note 13, at 211.

<sup>227</sup> See generally MOU, *supra* note 8, art. 1(1)(d).

<sup>228</sup> *Id.* art. 1(1), (2).

<sup>229</sup> Amendments, *supra* note 7, art. 51. The amended text reads as follows:

Where a qualified entity who requests on reasonable terms the patentee of an invention or utility model the license to exploit his or its patent is unable to obtain such license within a reasonably long period of time, the Patent Office may, upon the request of the entity, grant a compulsory license to exploit such patent.

*Id.* Foreign patent holders should be aware, however, that the Patent Law still theoretically allows an applicant for a license to force the issue if the reviewing authorities consider the applicant's terms of licensing to be reasonable.

<sup>230</sup> See MOU, *supra* note 8, art. 1(1)(d)(ii)(1).

quirement, whereas the original law required domestic manufacturing to avoid compulsory licensing.<sup>231</sup> Curiously, the exception allowed in the MOU for compulsory licensing where non-use of a patent has been determined to be motivated by anti-competitiveness did not appear in the Amendments, unless the language in amended article 52 referring to the "public benefit" can be construed as such.<sup>232</sup>

Two other open issues remain concerning the Amendments to the Compulsory Licensing Chapter, in terms of their consistency with the MOU. First, instead of a three-year waiting period before a domestic entity can ask for a compulsory license, the Amendments allow such requests after a "reasonable period of time." Second, the Amendments incorporate new language regarding the power of the government to impose a compulsory license in the event of an "extraordinary state of affairs." The language in both of these provisions is ambiguous and adds to, rather than subtracts from, investors' uncertainty.

Although some commentators may claim that the modifications to the Patent Law in the area of compulsory licensing are perfunctory, the key elements of the MOU do appear to have been incorporated, and to an extent that demonstrates a significant concession by the Chinese government. In addition, the fact that no compulsory licenses were granted under the earlier, more liberal rules, is an indication that the Chinese have taken a practical viewpoint regarding their legal authority versus their economic self-interest. Nevertheless, foreign investors holding patent rights should remain wary of obtaining patent rights in China solely for the purpose of suppressing the use of the patented product or process.

#### CONCLUSION

The PRC Patent Law is an instructive example of a legal doctrine changing the political and economic framework of a nation. Typically, legal doctrines develop to reflect changes in the underlying social and political characteristics of a nation. Here is a case where the legal protection afforded to intellectual property has been the engine for changes, perhaps to a degree unanticipated, in the political philosophy of socialist China. The ultimate question is

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<sup>231</sup> See Lulin, *supra* note 76.

<sup>232</sup> Amendments, *supra* note 7, art. 52. The amended text reads as follows: "[i]n the case of a state emergency, unusual situation, or for the purpose of public benefit, the Patent Office may grant a compulsory license to exploit the patent of an invention or utility model." *Id.*

whether such changes put China on a slippery slope towards a capitalist structure they have rejected adamantly since 1949, or whether the Chinese have the political and cultural will to prevent changes in their legal structure from altering their political and economic landscape into an unrecognizable or at least hybrid form. Can the Chinese adopt legal doctrines like intellectual property protection that cut at the heart of Marxist principles of State-owned property and yet retain the socialist state that historically achieved political uniformity?

The extent of China's concessions to foreign investors reflects a determination to straddle conflicting pressures, but the consequences of increasing development and more widespread access by the populace to the fruits of innovation do not bode well for the more restrictive elements of the socialist political system. Like Japan before Admiral Dewey or China itself before the Opium Wars, an iconoclastic, isolationist culture is unlikely to survive contact with aggressive market economies, especially once the isolationists adopt the legal framework such economies require to operate at full efficiency. Fully aware that they constitute the world's largest remaining potential market, the Chinese leadership is taking the correct steps to ensure their sovereignty and integration into the world economy by adopting the precepts of western law, such as intellectual property protection, to manage their entry onto the playing field in as orderly a fashion as possible. In the case of its recent Amendments to the Patent Law, China merely is altering the tailoring of a suit it already has found quite comfortable to wear, at least from an economic perspective.

On balance, the Amendments to the Patent Law should allow investors to act with more confidence in the turbulent waters of China's burgeoning commercial markets. Indeed, where the Law remains ambiguous or even inadequate by world standards, political and economic forces should more than compensate for such legal lacunae.

*Laurence P. Harrington*

## APPENDIX A

### Memorandum of Understanding Between the Government of the People's Republic of China and the Government of the United States of America on the Protection of Intellectual Property

In the spirit of cooperation embodied in their bilateral Agreement on Trade Relations and consistent with the principles of the relevant international agreements, the Government of the People's Republic of China (Chinese Government) and the Government of the United States of America (U.S. Government) have reached a mutual understanding on the following issues:

#### ARTICLE 1

1. The Chinese Government will provide the following levels of protection under the Patent Law of the People's Republic of China:

(a) Patentable Subject Matter

Patents shall be available for all chemical inventions, including pharmaceuticals and agricultural chemicals, whether products or processes.

(b) Rights Conferred

A patent shall confer the right to prevent others not having the patent owner's consent from making, using, or selling the subject matter of the patent. In the case of a patented process, the patent shall confer the right to prevent others not having the patent owner's consent from using the process and from using, selling, or importing the product obtained directly by the process.

(c) Term of Protection

The term of protection for a patent of invention will be 20 years from the date of filing of the patent application.

(d) Compulsory Licenses

(i) 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.

(ii) Where China's law allows for use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

(1) authorization of such use shall be considered on its individual merits;

(2) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and such efforts have not been successful within a reasonable period of time. This requirement may be waived by the government in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;

(3) the scope and duration of such use shall be limited to the purpose for which it was authorized;

(4) such use shall be non-exclusive;

(5) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;

(6) any such use shall be authorized predominantly for the supply of China's domestic market;

(7) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;

(8) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;

(9) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority;

(10) any decision relating to remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority;

(11) the conditions set forth in sub-paragraphs (2) and (6) above are not required to be applied where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account

in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;

(12) where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:

(A) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;

(B) the owner of the first patent shall be entitled to a cross-license on reasonable terms to use the invention claimed in the second patent; and

(C) the use authorized in the respect of the first patent shall be non-assignable except with the assignment of the first patent.

2. The Chinese Government will submit a bill to provide the level of protection specified in subparagraph 1 of this Article to its legislative body and will exert its best efforts to have enacted and to implement the amended patent law by January 1, 1993.

3. Both Governments reaffirm their commitments to each other under the Paris Convention for the Protection of Industrial Property (Stockholm 1967) and their continued commitment to observe the principle of national treatment with respect to providing patent protection for the natural and legal persons of the other Party.

4. If the U.S. Government becomes a party to an international convention that requires the United States to provide a patent term of at least 20 years from the date of filing of the patent application, the United States will amend its laws to satisfy this obligation.

## ARTICLE 2

Both Governments reaffirm that the principle of territoriality and independence of patents with regard to the protection of patents as provided in the Paris Convention for the Protection of Industrial Property should be respected.

The Chinese Government agrees to provide administrative protection to U.S. pharmaceuticals and agricultural chemical product inventions which:

- (1) were not subject to protection by exclusive rights prior to the amendment of current Chinese laws;
- (2) are subject to an exclusive right to prohibit others from making, using or selling it in the United States which were granted after January 1, 1986 and before January 1, 1993;
- (3) have not been marketed in China.

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#### ARTICLE 4

1. For the purpose of ensuring effective protection against unfair competition as provided for in Article 10bis of the Paris Convention for the Protection of Industrial Property, the Chinese Government will prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the trade secret owner in a manner contrary to honest commercial practices including the acquisition, use or disclosure of trade secrets by third parties who knew, or had reasonable grounds to know, that such practices were involved in the acquisition of such information.
2. The term of protection for trade secrets shall continue so long as the conditions for protection are met.
3. The competent authorities of the Chinese Government will submit the bill necessary to provide the levels of protection specified in this Article to its legislative body by July 1, 1993 and will exert its best efforts to enact and implement this bill before January 1, 1994.