as the direct contact to both the courts and the clients. Frequently, foreign courts do not let attorneys from outside countries be admitted into their forum.

A preliminary injunction may be available, and an action seeking this remedy is brought in a local district court. Attachment or confiscation of the goods may also be available remedies. Quick hearings are granted to resolve the matter, generally three to four weeks after the filing date of the preliminary injunction. These are followed by successive hearings fifteen to twenty days after the initial hearing, until a final decision is reached. The basic standard of proof in these proceedings is to establish that the trademark or patent covers the goods in question, and to demonstrate a sense that a growing threat of infringement will arise if the disputed practice is not immediately stopped. Regarding damages, the laws provide for both civil and criminal penalties. Patent infringement can result in civil fines ranging up to US$50,000 and criminal incarceration of up to five years, although jail sentences are rare in infringement cases.

In closing, it should be noted that the South Korean conglomerates, or *chaebol*, do not rely so much on the South Korean intellectual property protection laws, but really use market share to establish economic power. The real battle is fought in the marketplace and not the courtroom. Essentially, five or six of the *chaebol* have dominated the South Korean economy and controlled the business flow of products. However, South Korea recently instituted a new system, the "highly advanced national project" (HAN), to bring itself into the twenty-first century by emphasizing investment in projects such as high-definition television, software and semiconductors. As South Korea makes this push, it must ensure further compliance with TRIPs and other intellectual property regulations if it is to compete properly in the global market.

INTELLECTUAL PROPERTY IMPLEMENTATION, COMPLIANCE AND EFFECTIVENESS IN MAINLAND CHINA AND TAIWAN

by William O. Hennessey[*]

It has become commonplace in economic thought that those who cannot be excluded from obtaining the benefits of a collective good once it is produced have little incentive to contribute voluntarily to its provision. In 1965 Mancur Olson wrote that "unless the number of individuals is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational self-centered individuals will not act to achieve their common or group interests."[1] More recently, Elinor Ostrom put the problem this way: "[I]ndividual rational strategies lead to collectively irrational results."[2]

An intellectual property regime is a special case of the general rule: Weak intellectual property protection puts economic benefits into the hands of free riders, who ultimately contribute nothing to an economy's "infrastructure of innovation." Even where a technology is not easily copied, technology transfer has to take place through joint ventures and licensing—ongoing relationships with sharing of know-how and trade secrets. But where technology can be easily copied, absence of adequate and effective intellectual property rights means that it can be used freely without authorization—or even the knowledge—of a rights holder, and the user may be able to "get rich quick."

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[1] MANCUR OLSON, THE LOGIC OF COLLECTIVE ACTION 2 (1965)

[2] ELINOR OSTROM, GOVERNING THE COMMONS 5 (1990).

The free rider question has been central to most of the intellectual property disputes between the United States, the Republic of China (Taiwan) and the People's Republic of China. Yet the major business ventures announced in recent weeks by U.S. firms that are investing in China and agreeing to transfer significant amounts of technology (General Motors and Boeing come to mind) evidence a countertrend. First let's look at a few alleged examples of free riding from China and Taiwan based on this year's "Special 301" filings with the U.S. Trade Representative (USTR).[3]

According to the International Intellectual Property Alliance (IIPA), Chinese and Taiwanese exports of pirated goods, including compact discs, CD-ROMs, and entertainment software such as Nintendo products, are being routed through Paraguay to other destinations. According to Nintendo, its piracy losses worldwide are "caused primarily by the combined activities of cartels in the Greater China area—Taiwan, Hong Kong, and mainland China." Producers in Taiwan (e.g., Fortune Power Company) supply the counterfeit chips and software, technology, funding and expertise to related assembly companies in mainland China (e.g., Shenzhen Jichang Company) and then to shell "trading companies" in Hong Kong (e.g., Selbill Company). The IIPA estimates 1996 losses to piracy in mainland China at about US$2 billion (up US$100 million from 1995 and far and away "at the top of the charts") and in Taiwan about US$250 million (down a bit from 1995). Nintendo alleges that 75 million counterfeits of its game products have been made in mainland China since 1991.

Cone Mills, of Greensboro, North Carolina, spends about US$60,000 per design for new fabrics, about US$6 million per year overall. About 70 percent of new designs fail to recapture investment. "Knock-offs" show up for only the popular designs (pirates tend not to copy the unpopular ones for some reason). The company says, "Cone Mills has reported known instances of infringement to the Taiwanese government. Despite expressions of willingness to assist in investigating these instances, the government has not taken any positive steps to assist in pursuing the infringers."

The International Anticounterfeiting Coalition (IACC) says that copyright infringement in mainland China is down (i.e., the cup is half full), but trademark and trade name infringement is up (i.e., it's still half empty). For example, one of Caterpillar Incorporated's parts traders in mainland China pursued a local company calling itself "Xiamen Caterpillar Parts Ltd." The State Administration of Industry and Commerce in the city of Xiamen ruled that the local company was using the Caterpillar name in violation of both the Paris Convention and the Chinese Anti-Unfair Competition Law, but then it failed to cancel the local company's trade name registration. (Minor detail.)

Also, according to the IACC, Taiwan reduced the maximum criminal sentence under the trademark law from five years to three years. As it happens, actual sentences of more than three years cannot be commuted to a fine. The current "prison term buyout" fines run from US$12 to US$36 (NT$300-NT$900) a day. That amounts to a maximum fine of US$6,624. In the year ending June 30, 1996, 74.8 percent of sentences resulted in a buyout.

[3] Determination Involving Expeditious Action; Proposed Determination Concerning What Further Action to Take under Section 301(a) in Response to the People's Republic of China's Unsatisfactory Implementation of the 1995 Agreement on Enforcement of Intellectual Property and Market Access, 61 Fed. Reg. 25,000 (1996); Identifications of Countries under Section 182 of the Trade Act of 1974: Request for Public Comment, 62 Fed. Reg. 1142 (1997). In identifying countries that deny adequate protection for intellectual property rights, the Trade Representative "shall take into account such information as may be submitted to the Trade Representative by interested persons, including . . . information contained in . . . petitions submitted under section 302." 19 U.S.C. § 2242(b)(2)(B). All references to factual allegations in the following paragraphs are taken from petitions filed with the Trade Representative in February 1997. *See also* Office of the U.S. Trade Representative, *National Trade Estimate* <http://www.ustr.gov/reports/nte/1997/contents.html>.

Taiwan's 1994 draft amendments to Articles 123 and 124 of the patent law remove penalties for "new-invention products and methods" but leave them in for "new utility model" and "new design" patents. As it happens, more than 90 percent of "new-invention" patents are issued to foreigners; less than 30 percent of "utility model" and "design" patents are so issued. So congratulations to all you utility model and design patent owners! A three-dimensional representation of a copyrighted Mighty Morphin Power Ranger design is permissible "implementation," not impermissible "reproduction," according to the Taiwan High Court.

Chips, software, Nintendo, fabric designs, famous trademarks. Knock-offs. Now let's look at countertrends: Are mainland China and Taiwan serious about "finding a seat of honor at the international table" and developing in the near future an "infrastructure of innovation"?

Looking generally at the "Chinese area," we can see some common movement in mainland China and Taiwan this year. Taiwan was removed from U.S. 301 watch list status as the result of an out-of-cycle review in November 1996. On June 10, 1996, MOFTEC in mainland China issued a "circular" for acceptable compact disc production.[4] On June 17, 1996, facing US$2 billion in U.S. sanctions, China signed an agreement with the USTR to step up copyright enforcement. In November 1996 the Beijing Intermediate Court decided a case in favor of U.S. motion picture studios, awarding damages of RMB400,000.[5] In December 1996 a U.S. Government team in the Chinese province of Guangdong saw enough evidence of closings of compact disc factories to allow the USTR to announce that "major progress" had been made toward copyright enforcement.[6]

Even some of the most vocal of U.S. intellectual property owners (Nintendo aside) have had to admit the progress that has been made. The IACC section 301 report to the USTR in February 1997 noted that mainland China had taken "aggressive steps to curb intellectual property piracy." In the same report, the IACC said that "Taiwan's intellectual property legislation and enforcement apparatus improved by leaps and bounds over the course of the past five years. . . . We commend both Taiwan and USTR for devoting necessary resources to bring about these improvements. In short, Taiwan now has, in most respects, a solid legal regime for the protection of intellectual property rights, as well as enforcement mechanisms that can provide sufficient redress to rights holders."[7]

The drive in both Taiwan and China toward technological modernization today is built on (1) attracting technology from the United States, Europe and Japan, and (2) maintaining aggressive export policies focused on the U.S. market. Taiwan's ability to enter the World Trade Organization (WTO) as a developed nation depends on technological investment in Western and Japanese technology. Without what Adrian Otten, Intellectual Property Director at the WTO, calls a "psychological sense of security" for technology owners, advanced technology that cannot be "knocked off" will not be transferred. Much of mainland China's efforts at improving intellectual property protection are focused on compliance with Trade Related Aspects of Intellectual Property Rights (TRIPs) and are geared at entering the WTO "club." But once mainland China and Taiwan have entered the WTO, will they continue their campaigns to improve intellectual property protection?

[4] Ministry of Foreign Trade and Economic Cooperation [MOFTEC] Tan et. Al, *Asia Pacific Review of the Year: China*, 67 COPYRIGHT WORLD 19, 20 (Feb. 1997).

[5] *Id.*

[6] 11 WORLD INTELL. PROP. REP. 53 (Feb. 1997).

[7] Adrien Otten, Les Suites d'l'Accord de Marrakech et la propriété intellectuelle: La mise in place de l'OMC, Remarks at ATRIP Annual Meeting, Casablanca (Sept. 6, 1996).

The Chinese economist Wang Huijiong characterized China's reform style as follows: "gradualism, experimentation, and partial reforms," taking into account China's size, population and deeply embedded culture.[8] The Chinese Patent Office opened in 1985. Patent filings increased exponentially in 1996. Of the half-million applications filed, 86 percent were filed by Chinese. Last month, Upendra Roy, of the USPTO, along with Robert Tuch and Joseph Clark at the U.S. Department of Commerce, published a study of global patents versus research and development (R&D) investment in which they assert that China is approaching a ratio of indigenous patents to gross domestic product (GDP) associated with the Group of Seven (G–7) countries.[9] Others "above the regression line" exhibiting rapid innovation in the same study are Poland, South Africa, South Korea and Finland. India, Brazil and Ireland had much lower rates. In 1994 there were in mainland China about 70,000 foreign trademark registrations, out of a total of about 460,000 trademark registrations overall. Mark Abell, with Field Fisher Waterhouse in London, wrote an article published (among other places) in the March 1997 issue of *Trademark World* in which he asserted (!) that trademark valuation in China is "more advanced" than in either Europe or the United States, and that the Intellectual Property Division of the Beijing Municipal Court, which handles intellectual property cases, is "bullish in its defence of intellectual property rights, particularly with regard to trademarks, and has awarded damages and legal costs."[10] The mainland Chinese government announced regulations in December 1995 on how enterprises were to manage trademarks, and in May 1996 on "trademark valuation institutes" for enterprises. As is the case throughout the mainland Chinese intellectual property rights regime, regulatory and administrative enforcement proceedings predominate. The trademark valuation regulations are hardly controversial even from a U.S. perspective. Firms doing trademark valuation must have government-certified accountants and economists. A modest beginning, but a beginning nonetheless. By contrast, even after the heady days of RJR-Nabisco in the 1980s, brand valuation in the United States is still a black art.[11]

Another example of China's regulatory approach is the 1988 Product Quality Law, under which firms are subject to a range of administrative, civil, and criminal sanctions for placing defective products in the stream of commerce.[12] (A warning to licensors: Watch your indemnity clauses!)

Product-by-process patent protection and service mark protection, in legislative compliance with TRIPs levels, were added in 1993. The 1993 Unfair Competition Law is the first legislation in mainland China to protect know-how and trade secrets. Article 10 of that law is quite specific on what constitutes a business secret and what acts are prohibited, including third parties that obtain, use or disclose such proprietary information "when it or he has or should have full knowledge of the illegal acts."[13] One Chinese author has recently asserted that a plaintiff making a *prima facie* case of trade secret misappropriation should be able to shift the burden of proof to the defendant to establish prior disclosure or nonderivation. He also states that the criteria for security

[8] HUIJONG WANG ET AL., INDUSTRIALIZATION AND ECONOMIC REFORM IN CHINA 167 (1995).

[9] Uprendra Roy, Robert D. Tuch & Joseph E. Clark, *Global Assessment of Patents, R&D Investment and Economic Output: Part I—Macro Comparisons at the Country Level*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 110, 118 (1997).

[10] Mark Abell, *Is China More Advanced than the West in its Approach to Brand Valuation?*, TRADEMARK WORLD, Mar. 1997, at 17–19.

[11] *Id.*

[12] Shaojie Chi, *Liability Issues are Consideration in China Licensing*, XXXI LES NOUVELLES: J. LICENSING EXECUTIVES SOC'Y, Dec. 1996, at 179–82.

[13] Shaojie Chi, *The Current Business Secret Protection Mechanism in China*, CHINA PAT. & TRADEMARKS, Jan. 1997, at 68, 72.

measures for establishing secrecy have been "fairly generous."[14] But notarization and authentication of power of attorney have been a difficulty for some foreign firms, which have sometimes been required by consulates to produce the documents the attorney will file before the attorney has been authorized to file them.

Administrative enforcement is through an Administrative Authority for Patent Affairs (AAPA); State Administration for Industry and Commerce (SAIC), for trademark infringements and unfair passing off; and the National Copyright Administration of China (NCAC). Chinese Patent Commissioner Gao Lulin recently reported that in the four-year period from 1991–1995, Chinese courts "heard and closed" 2,737 patent cases, 789 trademark cases, 2,429 copyright cases, 6,800 technology contract cases and 2,100 others, including "business secrets cases."[15] It appears that these statistics refer to administrative cases and not court proceedings. In March 1996, the People's Republic of China Trademark Office ordered the Administrations for Industry and Commerce (AICs) to take provisional measures in trademark infringement proceedings.[16] We have no information as to whether they have actually done so in specific cases. Whether mainland China will comply with TRIPs Article 62(3), requiring that final administrative decisions be subject to judicial or quasi-judicial review, is an open question. With its inimitable skepticism, *The Economist* recently speculated on China's ability to sustain change with the following observation: "In China itself, many intellectuals share some of [the] Western pessimism and base their worries on the cyclical features of Chinese history, in which dynasties rise and fall and periods of prosperity are followed by periods of weakness and chaos."[17]

The perception of Chinese culture as a haven for copyists, which is captured in the expression "Chinese copy," is a persistent one; however, it's really just a half-truth. Premodern China's literate elite prided itself on "connoisseurship"—an appreciation of a student's skill at copying the master's work. And success was measured in recognition—not royalties. But defending intellectual property piracy in China today as somehow a trait characteristic of Chinese culture, while attractive as an attention-getter, leaves one skeptical for the following two reasons.

First, one wonders where all the innovative technology for which premodern China is justifiably famous, which has been described in the works of the late Joseph Needham and others, came from, if we assume that the Chinese were just copying everybody else.[18] Second, both mainland China and Taiwan wish to join the first rank of the world's economies. The political class in both mainland China and Taiwan know that a decent intellectual property system is a necessary if not sufficient component of their entry. The major question as to sufficiency is whether they can channel their political differences in a nondisruptive way. In this regard, the two most salient cautionary political lessons for twentieth-century Chinese on both sides of the Taiwan Strait are the Chinese Civil War and the Cultural Revolution.

Americans are suffused with the ideological belief that tomorrow will be better than today, and that the only thing American political adversaries differ on is how to attain a better tomorrow. Are the political and bureaucratic elites of the "two systems" (mainland

[14] *Id.*

[15] Lulin Gao, *China and the TRIPs Agreement*, CHINA PAT. & TRADEMARKS, Jan. 1997, at 3, 5.

[16] Shaojie Chi, *Administrative Action in China for IPR Cases*, XXXI LES NOUVELLES: J. LICENSING EXECUTIVES SOC'Y, Mar. 1997, at 30–35.

[17] *China: A Funny-looking Tiger*, THE ECONOMIST, Aug. 17, 1996, at 17, 19.

[18] *See generally* WILLIAM P. ALFORD, TO STEAL A BOOK IS AN ELEGANT OFFENSE: INTELLECTUAL PROPERTY LAW IN CHINESE CIVILIZATION (1994); I–IV JOSEPH NEEDHAM, SCIENCE AND CIVILIZATION IN CHINA (1954–1995).

China and Taiwan) willing to sacrifice short-term internal political advantages (and the risks of disaster they portend) for long-term international economic gains and an "infrastructure of innovation," as the West and Japan have done and South Korea is now doing? If long-term economic choices are given preference over short-term political expediencies, the outlook for intellectual property protection in the area is very bright. And perhaps the iron cycle of the "rise and fall" of Chinese history may be broken once and forever.

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