A SURVEY OF INTELLECTUAL PROPERTY ISSUES IN CHINA-U.S. TRADE NEGOTIATIONS UNDER THE SPECIAL 301 PROVISIONS

Qiao Dext†

Abstract: On January 16, 1992, the United States and China signed a Memorandum of Understanding (MOU) committing China to provide improved protection for U.S. intellectual property rights (IPRs) in China. Though the MOU is based on the special 301 provisions of the U.S. Omnibus Trade and Competitiveness Act of 1988, it may be regarded as being largely a continuation of the IPR provisions of a 1979 bilateral trade agreement. This article analyzes IPRs under the special 301 provisions, with reference to specific issues of patents, trademarks and copyrights. In conclusion, the following points are emphasized: 1) The MOU will apparently solve intellectual property disputes between China and the U.S.; 2) the MOU should help China further improve its intellectual property system, and benefit China's long-term interests.

CONTENTS

I. INTRODUCTION
   A. Overview
   B. Recent Development of Bilateral Trade
   C. Recent Development of the Chinese Intellectual Property Laws
   D. Enforcement of IPRs Law in China
   E. U.S Complaints of Inadequate Protection in China

II. SPECIAL 301 PROVISIONS AND CHINA-U.S NEGOTIATIONS
   A. The OTCA and the Super 301 Provisions
   B. The Special 301 Provisions
   C. China-U.S Negotiations on IPRs

III. ISSUES ON PATENTS
   A. Overview
   B. Protection of Chemicals and Pharmaceuticals
   C. The Interim Protection for Certain Products
   D. The Compulsory License
   E. Term of Protection and Right to Import

† A visiting scholar at the University of Washington School of Law, Director of the Legal Department, the Patent Office of the People’s Republic of China. The author acknowledges valuable suggestions and assistance from Professor John O. Haley of the University of Washington School of Law and Paul C.B. Liu, Ph.D., Associate Director of the Center for Law, Science and Technology, University of Washington School of Law. The views presented here are solely the responsibility of the author.
IV. ISSUES ON COPYRIGHTS
A. Overview
B. Works by Americans
C. Protection of Computer Software
D. Rights and Restrictions
E. Berne and Geneva Conventions

V. ISSUES ON TRADEMARKS, TRADE SECRETS AND ENFORCEMENT
A. Trademarks
B. Trade Secrets
C. Enforcement

VI. CONCLUSION

I. INTRODUCTION
A. Overview

On January 16, 1992, Ambassador Carla A. Hills, the United States Trade Representative (USTR), announced that the United States and China had signed a Memorandum of Understanding (MOU) that commits China to provide improved protection for U.S. intellectual property rights in China. The Special 301 investigation that the USTR initiated on May 26, 1991 was thus resolved in a positive manner. Both sides applauded this agreement.¹

Actually, it is not the first time that intellectual property rights (IPRs) became the subject of China-U.S. trade negotiations. As early as 1979, when China first began its policy of reform and opening to the outside world, the two countries negotiated and concluded a bilateral trade agreement which paved the way for future development of trade between the two nations. One of the articles in this agreement specifically dealt with

¹ On the U.S. side, Ambassador Hills stated, "This agreement should create significant opportunities for U.S. firms interested in marketing high-value-added products to China . . . . We believe that we have made a bridge toward better understanding of our respective problems in these various negotiations, on intellectual property, [and] on market access." The International Intellectual Property Alliance declared this agreement long-waited and expressed that it would be willing to testify before the Congress in favor of granting the most-favored-nation (MFN) trading status to China. The Pharmaceutical Manufacturers Association (PMA) also applauded the agreement and stated, "This breakthrough opens the door to increase U.S. pharmaceutical sales to a very important market." The PMA also promised that it would support the MFN Status for China and encourage further development of the relationship between the two countries. See 9 INT'L TRADE REP. (BNA) 139-40. On the Chinese side, Li Lanqing, the Minister of Foreign Economic Relations and Trade, described the agreement as "good tidings for both [the] Chinese and [the] U.S., . . . a result of mutual understanding and mutual accommodation." Li viewed that the agreement will give a powerful push to the two-way trade and economic cooperation between the two countries. See Calls for Efforts to Settle U.S. Trade Issue, CHINA DAILY, Jan. 20, 1992, at 1.
IPRs.\textsuperscript{2} Then, in 1990, similar bilateral negotiations on IPRs took place, which expanded the China-U.S. Agreement on the Cooperation of Science and Technology.\textsuperscript{3} Therefore, the recent negotiations based on the Special 301 provisions of the U.S. Omnibus Trade and Competitiveness Act of 1988 (OTCA)\textsuperscript{4} are not entirely new.

As will be discussed below, the recent China-U.S. Trade Negotiations on IPRs are based on the Special 301 provisions of the OTCA, but the general goals of these negotiations have already been implied in the 1979 trade agreement. Paragraphs 3 and 5 deserve special attention:

Both contracting Parties agree that each party shall seek, under its laws and with due regard to international practices, to ensure to legal or natural persons of the other party protection . . . equivalent to the . . . protection correspondingly accorded by the other party.

Yet there was still a question as to how to interpret the enforcement of these articles. In this sense, the recent negotiations might be considered the continuation or development of the 1979 Agreement with respect to its enforcement under new situations.

B. Recent Development of the Bilateral Trade

The years since 1979 have witnessed a major expansion of the bilateral trade. The following statistics released by the two countries represent this expansion, although they differ in numbers to quite an extent.\textsuperscript{5} The statistics from both sides, however, indicate that trade is vigorously expanding.
According to the Chinese government, trade has grown enormously:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Exports to U.S.</th>
<th>Imports from U.S.</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>2,451.60</td>
<td>595.01</td>
<td>1,856.59</td>
<td>-1,261.58</td>
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<tr>
<td>1980</td>
<td>4,812.84</td>
<td>982.63</td>
<td>3,830.21</td>
<td>-2,847.58</td>
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<tr>
<td>1981</td>
<td>6,171.59</td>
<td>1,511.33</td>
<td>4,660.26</td>
<td>-3,148.93</td>
</tr>
<tr>
<td>1982</td>
<td>6,045.50</td>
<td>1,761.70</td>
<td>4,288.80</td>
<td>-2,527.10</td>
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<td>1983</td>
<td>4,486.13</td>
<td>1,720.15</td>
<td>2,765.97</td>
<td>-1,045.82</td>
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<tr>
<td>1984</td>
<td>6,470.01</td>
<td>2,432.57</td>
<td>4,037.44</td>
<td>-1,604.87</td>
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<td>1985</td>
<td>7,442.35</td>
<td>2,352.16</td>
<td>5,090.19</td>
<td>-2,738.03</td>
</tr>
<tr>
<td>1986</td>
<td>7,348.44</td>
<td>2,631.75</td>
<td>4,716.69</td>
<td>-2,084.94</td>
</tr>
<tr>
<td>1987</td>
<td>7,868.45</td>
<td>3,037.47</td>
<td>4,830.98</td>
<td>-1,793.51</td>
</tr>
<tr>
<td>1988</td>
<td>10,049.84</td>
<td>3,381.76</td>
<td>6,668.08</td>
<td>-3,286.32</td>
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<tr>
<td>1989</td>
<td>12,254.39</td>
<td>4,391.01</td>
<td>7,863.38</td>
<td>-3,472.37</td>
</tr>
<tr>
<td>1990</td>
<td>11,767.79</td>
<td>5,179.46</td>
<td>6,588.33</td>
<td>-1,408.87</td>
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</tbody>
</table>

U.S. government statistics also show China's growing importance:

Top 50 Deficit Countries in U.S. Trade in 1990 (Unit: $1,000,000 U.S.)

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</thead>
<tbody>
<tr>
<td>61</td>
<td>6</td>
<td>1,665</td>
<td>2,796</td>
<td>3,490</td>
<td>6,235</td>
<td>10,417</td>
<td></td>
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Top 50 Partners in Total U.S. Trade (Unit: $1,000,000 U.S.)

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<tbody>
<tr>
<td>6,069</td>
<td>7,717</td>
<td>7,877</td>
<td>9,791</td>
<td>13,532</td>
<td>17,745</td>
<td>20,031</td>
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Top 50 Purchasers of U.S. Exports (Unit: $1,000,000 U.S.)

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<tbody>
<tr>
<td>3,004</td>
<td>3,856</td>
<td>3,107</td>
<td>3,497</td>
<td>5,021</td>
<td>5,755</td>
<td>4,807</td>
<td></td>
</tr>
</tbody>
</table>

Top 50 Suppliers of U.S. Imports (Unit: $1,000,000 U.S.)

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</thead>
<tbody>
<tr>
<td>3,056</td>
<td>3,862</td>
<td>4,771</td>
<td>6,293</td>
<td>8,511</td>
<td>11,990</td>
<td>15,224</td>
<td></td>
</tr>
</tbody>
</table>


As far as the numbers in 1990 are concerned, China was No. 10 of the Top 50 partners in total U.S. trade, No. 18 of the top 50 purchasers of U.S. exports, and No. 8 of the top 50 suppliers of U.S. imports.

As for the statistics of 1991, according to Mr. Zhu Qizhen, Chinese Ambassador to the United States, the two-way trade totaled $9.477 billion U.S. in the January-September period, a 17.1 percent increase over the same period in 1990, and it was expected to reach $13 billion U.S. by the end of the year. The statistics released by U.S. Department of Commerce showed that U.S. imports from China totaled $18.976 billion and exports to China totaled $6.287 billion. These statistics provide a basic overview of the economic background for the China-U.S negotiations on IPRs.

C. Recent Developments in Chinese Intellectual Property Legislation

Since 1978, China has made much progress in the field of intellectual property. Before 1978, there had been very little in the way of intellectual property legislation. It was not until 1982 when China issued the first Trademark Law that the development of a modern intellectual property system got under way.

Since 1982, China has quickened its step towards establishing and completing its intellectual property system by implementing new legislation, among which have been: the Patent Law issued in 1984, its Implementing Regulations in 1985; General Principles of the Civil Law with Section 3 of Chapter V entitled "Intellectual Property Rights" in 1986; the Implementing

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9 See WORLD JOURNAL, Feb. 21, 1992.
10 Nevertheless, trade negotiations may often be influenced or even greatly influenced by other factors, such as politics. Just as Steven R. Phillips pointed out in The New Section of the Omnibus Trade and Competitiveness Act of 1988: Trade Wars or Open Markets?, 22 VAND. J. TRANSNAT'L L. 491, 502 (1989) 
"[T]here was an overriding reason for the trade bill: politics. Trade had entered the political field as a major player."
11 From 1949, the founding of the People's Republic of China (P.R.C.), until 1981, very little legislation had been issued in this field. Two of these are the Interim Regulations Concerning Protection of Patents and Inventions (1950) and the Regulations Concerning Awards for Inventions (1963). This legislation and their revisions in 1978 did not recognize the exclusive right of intellectual property. The Provisional Regulations on Trademark Registration (1950) also did not address the protection of exclusive rights. The Regulations for Administration of Trademarks (1963) contained no provisions on the protection of exclusive right of trademarks. See ZHENG CHENGSI AND MICHAEL D. PENDLETON, CHINESE INTELLIGUAL PROPERTY AND TECHNOLOGY TRANSFER LAW 51-53 (1987).
12 Although the Trademark Law developed out of the former regulations, one of its most important features, which was absent in the former regulations, is the recognition and provision of the exclusive right to use trademarks.
Regulations Under the Trademark Law in 1988; the Copyright Law in 1990, and its Implementing Regulations and the Computer Software Protection Regulations in 1991. Furthermore, the revision of the current patent law and the trademark law, which began several years ago, is expected to be completed during 1992. The drafting of the law on unfair competition is also under way. Meanwhile, China joined the World Intellectual Property Organization in 1980, the Paris Convention for the Protection of Industrial Property in 1984, and the Madrid Agreement Concerning the Registration of Trademarks in 1989.

So, it is fair to say that China has made significant progress toward protecting intellectual property, although in some areas its protection is not as complete as protection provided by the United States. But on the whole, the progress has been tremendous.

D. Enforcement of IPRs Law in China

1) National Competent Authorities

The governmental organs for intellectual property affairs are the Patent Office of the P.R.C., the State Copyright Administration, the Trademark Office under the State Administration for Industry and Commerce, and the China Software Assessment and Registration Center, under the Ministry of Machine Building and Electronics Industries. These authorities are responsible for implementing the relevant intellectual property legislation and issuing orders, directives and regulations within

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13 It was recently reported that the Patent Law Amendments would include the following: protection of chemical substances and pharmaceutical products, expansion of the effect of process patents, extension of the term of protection, right to import, and others. The Trademark Law Amendments would include the expansion of protection by registration of service marks, defense marks, collective marks, and certificate marks. Protection would also be granted for well-known marks in accordance with the Paris Convention. See Tang Zongshun, The Chinese Patent System in the Service of Modernization, 2 CHINA PATENTS & TRADEMARKS 23 (APR. 1992). See also Lu Pushun, Conscientiously Protect the Interests of Genuine Owners of Trademarks, 2 CHINA PATENTS & TRADEMARKS 55 (Apr. 1992).


16 The latest statistics released by China show that from April 1 of 1985 to the end of 1991, a total of 217,383 patent applications were received, of which 34,700 were from abroad. Of those, 86,253 were granted, 24,612 in 1991 alone. For trademarks, 40,330 trademarks were registered in 1991. By the end of 1991, the registered trademarks in force totaled 318,915, of which 47,859 were foreign trademarks. Sen Yaozeng, China's Patent Work Developing in Depth; Statistics Data on Trademarks in China 1991, 2 CHINA PATENTS & TRADEMARKS 16 (Apr. 1992); Statistics Data on Trademark in China, 2 CHINA PATENTS & TRADEMARKS 99 (Apr. 1992).
their jurisdiction. This is done in accordance with the statutes approved and published by the National People's Congress (N.P.C.) and its Standing Committee, as well as the administrative rules and regulations issued by the State Council. It should be noted that the N.P.C. and its Standing Committee are the final arbiters of the correct interpretation of statutes.

2) Local Authorities

Unlike the U.S. and most other countries, China has local administrative authorities, organizations which act under the direction of the national competent organs for intellectual property affairs. As with the national competent organs, there are four separate systems under the local authorities: patents, copyrights, trademarks and computer software. They function mainly as local administrators of intellectual property affairs. They do not, however, deal with the application or the registration procedure or the granting of rights.

3) Remedies for Infringements

For patents and trademarks, the party whose rights are infringed has two choices: either ask the local authorities to handle the case, in which case he or she may still be able to appeal to the court if not satisfied with its decision, or go directly to the court. In either case, remedies include stopping the infringing act, and compensation for the damage. For counterfeiting cases, the person directly responsible may be prosecuted for his or her criminal liability and an additional fine may be imposed.

For copyrights and computer software, the infringing case may be settled by mediation or brought to the courts directly. Remedies include ceasing the infringing act, eliminating the effects of the act, making a public apology or paying compensation for the damages. In some cases, the confiscation of the unlawful income and/or a fine may be imposed.

E. U.S Complaints of Inadequate Protection in China

Over the years, the U.S. has criticized China's inadequate protection of IPRs. The criticism increased after 1988 when the OTCA came into force, which created a special provision on intellectual property in Section 301 (the Special 301 provisions).

The complaints from the U.S. about the inadequate protection of IPRs in China is a two-sided issue. On one hand, the issue involves intellectual
property systems of two countries with differing levels of protection. On the other hand, it is a bilateral trade issue, which accords with the purposes of the OTCA.\textsuperscript{17}

As far as IPRs are concerned, the differences of the two systems are obvious. It is a fact that the U.S. has the most developed and comprehensive intellectual property system in the world. It may be unrealistic, however, to impose these very strict requirements on other countries.\textsuperscript{18} The USTR summarized the complaints from the U.S. about the Chinese IPRs as follows:

1) Deficiencies in its patent law, in particular, the failure to provide product patents protection for chemicals, including pharmaceuticals and agrochemical;

2) The lack of copyright protection for U.S. works not first published in China;

3) Deficient levels of protection under the copyright law and regulations that will come into effect on June 1, 1991;

4) Inadequate protection of trade secrets; and

5) The absence of effective enforcement of IPRs in China, including rights in trademarks.\textsuperscript{19}

According to the USTR, U.S. industries lost approximately 400 million [dollars] in 1991 due to China's inadequate intellectual property protection.\textsuperscript{20} However, in reality it is very difficult to see where these numbers came from and how accurately they reflect the impact of IPRs on trade.\textsuperscript{21}

\textsuperscript{17} Among the 16 principal objections of the U.S. in the OTCA, No. 10 pertains to intellectual property.

\textsuperscript{18} Even Germany, Japan and the EC are placed on U.S. priority and secondary watch lists for not providing adequate protection to U.S. IPRs under the special 301 provisions. See China, India and Thailand Named in First Priority Foreign Country List, 42 BNA's PATENT, TRADEMARK & COPYRIGHT JOURNAL [hereafter referred to as PTCJ] 8 (May 2, 1991).

\textsuperscript{19} USTR Launches Section 301 Investigation into IP Practices of India and China, 42 PTCJ 8, 152 (June 6, 1991).


\textsuperscript{21} For the estimated losses, Professor Abbott expressed the following opinion:

"Although industrialized country data used to estimate intellectual property-related losses is almost certainly biased toward magnifying the extent of the problem, even a skeptical approach to the figures indicates that the situation is worthy of attention." Frederick M. Abbott, Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework, 22 VAND. J. TRANSNAT'L L. 692 (1989). In the same article, the author further stated that this issue is difficult because it involves several highly uncertain factors:
II. THE SPECIAL 301 PROVISIONS AND THE CHINA-U.S. NEGOTIATIONS

The OTCA rewrote Sections 301-306 of the U.S. Trade Act of 1974\(^2\) to create what has been called "Super 301" enforcement of the U.S. trade rights. Within this large group of reforms is a smaller set of reforms which address unfair foreign practices as they relate to IPRs, the so-called Special 301 Provisions, which provided the framework for the China-U.S. Trade Negotiations on IPRs.

A. The OTCA and the Super 301 Provisions

The OTCA, which created the new section of 301, entered into force almost seven years after the first bill had been introduced to the U.S. Congress.\(^2\) This fact clearly indicates the special significance of the OTCA to the U.S. trade and economy, demonstrating that the super 301 provisions were the final product of a long-term development of the U.S. trade, economic and political policy.\(^2\)

Compared with the old Section 301 of 1974 Trade Act and the later 1979 and 1984 amendments, the new section of 301 is characterized by the following features:

1) Transfer of Authority

Under the old Section 301, the President retained the authority to decide whether to take retaliatory action against nations engaged in unfair

\(^2\) Senator Danforth introduced the first bill, the Reciprocal Trade and Investment Act of 1982. Senator John Danforth said, "In 1981, the concept for the 1984 Trade and Tariff Act was born, and that 1984 Trade Act was the basis for the 1988 Trade Act." See Phillips, supra note 10, at 496.
\(^2\) Id. at 501-02. The author cites several reasons. The principal one was the growing trade deficit, which grew from $38.4 billion in 1982 to $133.6 billion in 1985, $155.1 billion in 1986 and a record $170.3 billion in 1987. Secondly, Congress was frustrated with the Administration's lack of aggressive action under the old Section 301. Thirdly, the old Section 301 was ineffective in the opinion of those who filed the related cases. Finally, politics was the overriding reason for the trade bill. Trade negotiations and trade deficits make good press stories.
trading practices and the USTR was responsible for reviewing petitions.\textsuperscript{25} The President had the power to determine whether the elements of Section 301 had been met and to decide whether to take action.\textsuperscript{26}

Under the new section of 301, the USTR must decide whether to investigate. Based upon the investigations, the USTR has the authority to decide whether the 301 criteria have been met.\textsuperscript{27} If the criteria have not been met, the USTR must determine whether to take action and decide what kind of action to take.\textsuperscript{28} Within 30 days of the determination to take action, the USTR must implement the action, subject to the President's direction.\textsuperscript{29} The transfer of authority from the President to the USTR heightened the status of the USTR; in turn, the USTR was expected to strengthen the enforcement of U.S. trade laws.\textsuperscript{30}

2) \textit{Mandatory Retaliation}

Under the old Section 301, the President held the authority and the discretion to determine whether a practice was actionable and to decide whether to take action to enforce the rights of the United States under a trade agreement or to respond to unfair trade practices.

Under the new Section 301, the USTR must determine whether a trade partner has violated a trade agreement or is engaged in unfair trading practices and the USTR is required to take action, subject to the specific direction of the President. The actions the USTR may take, when the 301 criteria have not been met, include imposition of tariffs, suspension of trade agreement benefits, service sector restrictions, or entrance into a trade agreement. The USTR must implement the mandatory action selected within 30 days of the determination that the practice is actionable. The USTR can use one of the six waivers to avoid taking action.\textsuperscript{31}

The mandatory retaliation provision, on the one hand, can help meet the goal of the Congress to open up foreign markets. This has the potential of leading other countries to abolish their barriers, thereby increasing U.S. exports and decreasing the trade deficit. On the other hand, since mandatory

\textsuperscript{26} 19 U.S.C. § 2411 (d)(2).
\textsuperscript{27} 19 U.S.C. § 2414(a)(i).
\textsuperscript{28} 19 U.S.C. § 2414(a)(i)(B).
\textsuperscript{29} 19 U.S.C. § 2415(a).
\textsuperscript{30} The Congress hoped so when making such amendments, but the interagency dispute over whether to take action against other countries continued in the controversial and critical cases. For details see Phillips, \textit{supra} note 10, at 511-19.
\textsuperscript{31} 19 U.S.C. § 2411.
restitution does not comport with the principle of free trade and has the nature of trade protectionism, it may also cause trade wars and result in hurting the U.S.  


Under the new section of 301, the so-called super 301 provisions were created, which require that the USTR:

a) Identify priority countries with a "consistent pattern of trade barriers and market distorting practices," those barriers and practices, which if eliminated, would significantly increase U.S. exports;  

b) Identify priority practices and countries within 30 days after submission of the NTE report and investigate against all major trade barriers and market distorting practices 21 days after submitting its reports to Congress;  

c) Seek an agreement to eliminate or reduce trade barriers and market distorting practices within three years; alternatively, seek full compensation; suspend the investigation if an agreement is reached; and apply the mandatory retaliation provision if no agreement is reached;  

d) Submit annual reports to Congress on revised estimates of the value of remaining trade barriers and market distorting

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32 Professor Phillips analyzed some of the problems with such mandatory retaliation. First, it raises the specter of counter-retaliation. Second, it ignores the realities of a foreign country's domestic political situation. Third, it creates the problem of mirror legislation. He concluded: This new mandatory retaliation provision does create a substantial risk of trade wars. This provision may have some benefits including increasing exports, but this provision is worth pursuing only if the USTR retains flexibility to avoid actual retaliation when necessary and thereby minimizing the risk of a trade war. Phillips, supra note 10, at 527.  

Mr. Holmer, the former USTR, and Mrs. Bello, the former General Council of USTR, offered that these do not require protectionist actions, as they allow ample discretion with respect to their application. But they sharpen and hone this particular trade remedy tool so that it can be used effectively to promote open markets and thus to further liberalize trade. Alan F. Holmer and Judith Hippler Bello, U.S. Trade Law & Policy Series No. 14, The 1988 Trade Bill: Savior or Scourge of the International Trading System?, 23 THE INT'L LAW. 523, 529 (Summer 1989).  

Another commentator noted that trade retaliation is immoral because it deliberately inflicts harm on people who aren't any party to any trade dispute. Some victims are foreigners .... Besides, many victims are American consumers forced to pay more for goods. Powell, Trade Retaliation Can Lead to Catastrophe, WALL ST. J., Mar. 23, 1992, at A8.  

34 Id.  
35 Id.
practices, report evidence of substantial progress each year, report evidence of whether an agreement has been reached and if so, whether the country is complying with the agreement, and in cases where such evidence cannot be provided, provide reports on the actions taken under the retaliation provisions.\textsuperscript{36}

In sum, the new mechanism of super 301 provisions deals with unfair trade practices through mandatory retaliation. The mandatory retaliation provision, however, does not solve all of the problems.\textsuperscript{37} Certainly it is "not the son of the Gephardt amendment (which would have required draconian trade sanctions unless 'excessive and unwarranted' bilateral trade surplus of other nations with the United States were reduced at least 10 per cent each year),"\textsuperscript{38} but it is "only marginally better than the Gephardt amendment."\textsuperscript{39}


These newly-added separate provisions are the so-called Special 301 provisions which will be discussed in detail below.

To summarize, the new Section 301 of the OTCA "is a powerful tool that is very much a double-edged sword—it can cut down trade barriers and open markets, or it can torture United States trade relations and cause trade wars." It is also essential to realize that a tough Section 301 is not a panacea for trade deficit problems.\textsuperscript{40}

B. The Special 301 Provisions

The intellectual property provisions created within the new section of 301 are usually called Special 301, to distinguish them from the more general Super 301 provisions.

1) Background

In addition to areas such as the trade deficit, trade barriers and even politics, the creation of these provisions has special links to the development of IPRs itself.

\textsuperscript{36} Id.
\textsuperscript{37} Phillips, \textit{see supra} note 10, at 543.
\textsuperscript{38} Holmer & Bello, \textit{see supra} note 32, at 530.
\textsuperscript{39} See Phillips, \textit{supra} note 10, at 543.
\textsuperscript{40} See Phillips, \textit{supra} note 10, at 551.
First, for a long time the U.S. has emphasized efforts to strengthen the protection of IPRs. There are obvious reasons for this: it helps in strengthening the competitiveness of the U.S. economy and in meeting the needs of technological development. The improvement of patent policy has often been cited as one of the government's goals in reports and recommendations involving science, technology and the economy.41

Since the late 1970s there have been tremendous developments in the U.S. intellectual property system. These developments cover the entire field of IPRs, not only the traditional areas of patents, trademarks and copyrights, but also the new fields of technology, such as semi-conductor chips, computer software, and bio-engineering inventions.42

Second, while greatly improving its domestic legislation, the U.S. has also been making strong efforts to build a high-level international protection of IPRs, mostly in WIPO, and recently also in GATT. Two examples of such efforts are the WIPO-sponsored activities of harmonization of patent laws43 and the intellectual property protection of integrated circuits.44

Finally, the U.S. efforts to merge IPRs and international trade policy may be its most important contribution over the last two decades. As summarized by R. Michael Gadbow, these efforts have resulted in achieving a consensus in industry and government around certain important basic principles, which have laid a sound basis for future policies and laws.45 The catalyst for these principles is economic interest.46

41 One example is the report by the President's Commission on Industrial Competitiveness which includes 32 recommendations for strengthening IPRs. *Global Competition: The New Reality, INT'L TRADE REP.*, Feb. 20, 1985, at 252.
42 The U.S. has issued a series of laws in recent years and has been the main source pushing forward the global development of the IPRs system.
43 Sometimes the U.S. may have to change its own laws in this process, e.g., to change the system of first-to-invent to that of first-to-file.
44 The U.S. had made efforts to set up an international agreement in this area for several years. It hosted the Diplomatic Conference in Washington D.C. for over 3 weeks, although it objected to the final treaty, declaring that the treaty was not acceptable. See Diplomatic Conference for the Conclusion of a Treaty on the Protection of Intellectual Property in Respect to Integrated Circuits, WIPO DOC, IPIC/DC/3 (1989).
45 These principles are that: 1) the trade and intellectual property rights are a part of a set of policies that must be integrated in the interests of maintaining U.S. competitiveness; 2) the U.S. should insist on the application and enforcement of certain minimum standards of intellectual property protection in all countries in which the U.S. is commercially engaged; (3) trade and other commercial concessions that the United States grants other countries should be conditioned upon adherence to these standards; and that 4) international agreement should embody these minimum standards and ensure that they are enforceable as part of both domestic and international law. See R. Michael Gadbow, *Intellectual Property and International Trade: Merger or Marriage of Convenience?,* 22 VAND. J. TRANSNAT'L L. 226 (1989).
46 Congressmen Robert W. Kastenmeir and David Beir wrote, "The increasing importance attached to trade-oriented intellectual property, growing levels of piracy facilitated by emerging technologies, and expanding research and development costs has motivated business to seek governmental intervention to
Based on these principles, Congress passed the Trade Act of 1984, which provided a congressional mandate to carry out this new policy concerning the protection of IPRs in two ways: first, by linking the protection of IPRs to the receipt of GSP benefits, and second, by including the protection of IPRs in the "unjustifiable" or "unreasonable" trade practices for purposes of Section 301 of the Trade Act of 1974. The development of the Special 301 provisions of the OTCA seemed to be a logical extension of this legislation.

The process of merging IPRs and international trade policy continued to develop when, in 1987, the Caribbean Basin Economic Recovery Act was passed, providing for special tariff treatment to those nations, and with the proviso that the President take into account the adequacy of protection of IPRs provided by a nation in determining its eligibility for the special treatment.50 Almost at the same time, these merging efforts made the protection of IPRs one of the new negotiation topics of the Uruguay Round of the GATT Talks, as Trade Related Intellectual Properties (TRIPs). So far, the talks on the TRIPs Agreement have been quite successful. If an agreement on TRIPs is concluded as expected, there will be far reaching effects on the progress of both international and domestic IPRs.51


The authors also noted some statistics on the profits or estimated losses which support their point, "In the postwar era, the relative percentage of United States exports with a high intellectual property content (for example, chemicals, books, movies, records, electrical equipment, and computers) has more than doubled to more than six times the amount paid to foreign firms. Equally significant are the losses that occur when such goods and services are pirated. According to some estimates, the value of lost sales due to unauthorized copying of United States products throughout the world exceeds $40 billion per year." Id. at 503(c)(5), 19 U.S.C. § 2462 (c)(5) (1988). The GSP program provides for special tariff preference for imports from designated developing nations. 19 U.S.C. §§ 2461 et seq. By such linking, Congress intended that the President consider the following factors in determining whether a country is providing "adequate and effective means" for foreign nations to secure and enforce intellectual property rights: the extent of statutory protection for intellectual property (including the scope and duration of such protection); the remedies available to aggrieved parties; the willingness and ability of the government to enforce intellectual property rights on behalf of foreign nationals; the ability of foreign nationals to enforce their intellectual property rights on their own behalf; and whether the country's system of law imposes formalities or similar requirements that, in practice, are obstacles to the meaningful protection for foreign nationals not imposed on domestic concerns. 1984 U.S.C.C.A.N. 5112-13.

48 Id., at 503(c)(5), 19 U.S.C. § 2462 (c)(5) (1988). The GSP program provides for special tariff preference for imports from designated developing nations. 19 U.S.C. §§ 2461 et seq. By such linking, Congress intended that the President consider the following factors in determining whether a country is providing "adequate and effective means" for foreign nations to secure and enforce intellectual property rights: the extent of statutory protection for intellectual property (including the scope and duration of such protection); the remedies available to aggrieved parties; the willingness and ability of the government to enforce intellectual property rights on behalf of foreign nationals; the ability of foreign nationals to enforce their intellectual property rights on their own behalf; and whether the country's system of law imposes formalities or similar requirements that, in practice, are obstacles to the meaningful protection for foreign nationals not imposed on domestic concerns. 1984 U.S.C.C.A.N. 5112-13.
The Special 301 provisions thus reflect the natural continuation and inevitable development of the existing legislation. The provisions also reflect the persistent efforts to strengthen IPRs both in and outside the U.S., and in particular, the efforts to merge intellectual property and international trade policy.

2) Features of the Special 301 Provisions

a) The Special Identification

The Special 301, like the Super 301, is within the general scope of 301 enforcement, particularly for identification, i.e. identification of countries that deny adequate and effective protection of IPRs. The phrase "adequate and effective protection of IPRs" is included in the definition of general 301 provisions, which reads:

Acts, policies, and practices that are unreasonable include but are not limited to, any act, policy, or practice, or any combination of acts, policies, or practices, which—(i) denies fair and equitable—(ii) provision of adequate and effective protection of IPRs . . . .

According to the Special 301 provisions, the USTR must fulfill several responsibilities. First, the USTR must identify foreign countries that deny either adequate and effective protection of IPRs or fair and equitable market access to U.S. persons that rely upon intellectual protection. Second, the USTR must identify only those countries with the most onerous or egregious acts, policies or practices that have the greatest adverse impact (active or potential) on the relevant U.S. products, when such countries have not entered into good faith negotiations and are not making significant progress in bilateral or multilateral negotiations to provide adequate and effective protection of IPRs.

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b) The Reason for the Special Identification

The fact that Congress treats the IPRs in such a special way within the general 301 enforcement, while regulating it in an additional provision, emphasizes this matter.

This emphasis is clearly expressed in the findings and purposes of the provision:

(1) The Congress finds that—A. international protection of intellectual property rights is vital to the international competitiveness of United States persons that rely on protection of intellectual property rights, and—B. the absence of adequate and effective protection of United States intellectual property rights, and the denial of fair and equitable market access, seriously impede the ability of the United States persons that rely on protection of intellectual property rights to export and operate overseas, thereby harming the economic interests of the United States.

(2) The purpose of this Section is to provide for the development of an overall strategy to ensure adequate and effective protection of intellectual property rights and fair and equitable market access for United States persons that rely on protection of intellectual property rights.54

Since the enactment of the Special 301 provisions in May, 1989, the USTR has identified 25 countries, and placed 17 of them on the "Watch List" and 8 on the "Priority Watch List."55 Subsequently, in May, 1990, the USTR decided not to target any countries as priority foreign countries.56 On April 26, 1991, however, China, India and Thailand were identified as "priority foreign countries."57

55 See USTR Fact Sheet for "Special 301" on Intellectual Property, 38 PTCJ 119, 131 (June 1, 1989).
56 China, India, and Thailand Named in First "Priority Foreign Country" List, 40 PTCJ 7, 9 (May 2, 1992).
57 The EC, Brazil and Australia, as well as 23 other countries, were placed on the watch list.
C. China-U.S. Trade Negotiations on IPRs

IPRs has been the subject of bilateral trade talks for several years. Apart from the negotiations for the 1979 Trade Agreement, the annual meetings of the bilateral Joint Commission on Commerce and Trade (JCCT) and also during the market access talks before 1988 when the OTCA with the Special 301 provisions, entered into force. But the situation then was not as tense as it later became. This stage might be called the first, or pre-Special 301 phase.\(^{58}\)

During this first phase, the U.S. was most concerned with "urging China to adopt product protection for pharmaceuticals and other chemical substances," and, second, with encouraging China "to include computer software copyright protection in its copyright law." At the same time, it affirmed that "China has made significant progress toward protecting intellectual property."\(^{59}\)

The second phase of China-U.S. trade talks on IPRs began with the entry into force of the U.S. OTCA, with its Special 301 provisions, in April, 1991.\(^{60}\) This was actually the first stage of China-U.S. talks on IPRs under the Special 301 provisions. As mentioned earlier, the provision provides that the USTR shall identify the "priority foreign countries," these countries that are subject to investigations by the USTR. China was placed on the "priority watch list" in 1989 and 1990\(^{61}\) due to deficiencies in its intellectual property rights protection.\(^{62}\)

During the talks of this phase, the Chinese side argued that China should be removed from the list, stating that it was intensifying its efforts to improve and update the Chinese intellectual property system, quickening the implementation of the copyright law, and drafting the computer software protection regulations. Furthermore, it amended the patent law to increase the term of protection to 20 years from filing, extended the effect of a process patent to products directly produced by the process, and strengthened the enforcement of IPRs.\(^{63}\) But the talks failed to achieve the expected results even though in May 1989 both sides concluded a

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\(^{58}\) These talks were the amended Section 301 of the Trade Act of 1984.

\(^{59}\) 1987 NTE Report, supra note 15, at 73-75.

\(^{60}\) See §182(e), (Amended by the 1988 Omnibus Trade & Competitiveness Act, 56 Fed. Reg. 20060 (May 1, 1990).

\(^{61}\) 1990 NTE REPORT, supra note 15, at 40.

\(^{62}\) USTR Launches Section 301 Investigation into IP Practices of India and China, supra note 19.

\(^{63}\) For the progress China has made, see section I part C, Recent Development of the Chinese Intellectual Property Laws, for further discussion. 1990 NTE REPORT, supra note 15, at 40.
memorandum of understanding which committed China to take steps to improve its protection of IPRs.64

In essence, this question did not seem to be impossible to solve, as both sides shared the common understanding that the IPRs should be protected in China because China needs it in its internal reform and in its opening to the outside world.65

The third and the most recent of the China-U.S. trade talks on IPRs began with the announcement of the USTR that China was designated as the priority foreign country under the Special 301 provisions. This certainly added much more tension, and China promptly responded, calling this designation "unacceptable" and "likely to damage bilateral trade relations" and asking the USTR to remove China from this "blacklist."66

Despite China's objections, on May 26, 1991, the USTR initiated an investigation under the Special 301 provisions. Six rounds of talks were held. The third one, which ended on October 25, 1991 in Beijing, still did not make any significant progress although the negotiations were considered "frank and friendly."67 The fourth round of talks was held in November, before the November 26th deadline when the USTR was originally scheduled to determine whether to levy retaliatory tariffs on China.68 The
last round of talks was held January 12th through the 16th, 1992. At that
time, the USTR extended the deadline to February 26, 1992. On the last day
of the talks, an agreement was finally achieved, thus ending the USTR
investigation under the Special 301 provisions.

III. ISSUES ON PATENTS

A. Overview

As early as 1988, when the Chinese Patent Office began to consider
the revision of the patent law, many foreign companies, including those in
the U.S., raised many issues and suggestions. The most critical and most
frequently raised issue was about product protection for chemicals and
pharmaceuticals. A letter from the DuPont company reads:

We have been pleased to see that the Chinese Patent Law is
explicit, modern and, on the whole, a sound patent law. Never-
theless, we believe that the interests of your country and the
welfare of your people will be better served in the future by
broadening the Patent Law to cover pharmaceuticals, chemical
substances and micro-organisms.69

The U.S. Pharmaceutical Manufacturers Association (PMA) recom-
mended the following improvements to the Chinese Patent Law: protection
of pharmaceutical products, compositions and uses, product-by-process
protection and reversal of the burden of proof for imports, extension of
patent term to 20 years from filing, inclusion of importation in the definition
of infringement, elimination of working requirements and innocent
infringement, and adoption of the Budapest Convention text permitting
micro-organism deposits outside China.70 The USTR, at an earlier time (in
1990), had required that the amendments to the Chinese Patent Law include
a term of protection of at least 20 years from filing, elimination of non-
working as a basis for issuance of a compulsory license, and product
protection for all chemicals and pharmaceuticals.71

Estimation and Eager Expectations—A Summary of Suggestions from International Industrial Property
70 PHARMACEUTICAL MANUFACTURER'S ASSOCIATION, COUNTRIES THAT DENY ADEQUATE AND
71 Letter from Joseph Massey, Assistant USTR, to Sheng Juiren, Deputy Minister of MOFERT of
China (1992).
When the USTR initiated investigation under the Special 301, it proposed that the Chinese patent law address product protection of chemical substances and pharmaceuticals, interim protection of the U.S. existing patented chemical substances and pharmaceuticals, amendment to the provision on compulsory licenses, and the patentee's right to exclude others from importing patented products. The USTR did not include in this proposal its former requirement of the term extension, because China had already disclosed its draft revision of the patent law which included the extension of the term.

B. Protection of Chemicals and Pharmaceuticals

Protection of chemicals and pharmaceuticals is not a new issue. It has been an issue of heated debate in China even during the drafting process of the patent law, and differing opinions continue to exist today. No one seems to be absolutely opposed to the provision of such protection, but again, the question is when it should be provided. Some suggest that the patent law should be amended along with its current revision. Some, especially the industries, have expressed uneasiness about such a quick change. Some propose that such protection may be provided ten or fifteen years from now, as China needs the time to further develop and prepare for this change.

A natural and realistic compromise appeared to be that China would realize such provisions in two steps: first, by extending the effects of the process patent to the products directly produced by the process and extending the patent term from 15 to 20 years from filing, and then within a transitional period of 10 to 15 years, adopting the product protection. It is quite natural and understandable that China reacted with such caution when the reactions of other developing countries facing the same situation are considered.

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74 For example, Mr. Liu Gushu, President of All-China Patent Agent Association, expressed the following views, "My standpoint is to actively support the establishment of the patent system in China and extend step by step the scope of protection under the Chinese Patent Law. As regards providing patent protection for pharmaceutical and chemical products and process, I maintain that full consideration should be given to the issue when amendments are made to the Chinese Patent Law. I believe in the wisdom of the Chinese people, and with the legal protection and encouragement by the patent law, their creativity will be brought into full play." 1 CHINA PATENTS & TRADEMARKS 55 (1989).
76 Differing opinions on this point have been voiced in various international forums. Nevertheless, the world situation is changing. One significant indication of this change is that the IPRs have become
As the result of the talks, China agreed to provide product protection for chemicals including pharmaceuticals and agricultural chemicals beginning on January 1, 1993. This represented a great advance for the Chinese patent system in its development.

C. The Interim Protection for Certain Products

The agreement includes provisions that China will provide market exclusivity for those pharmaceutical and agrochemical products that have been patented in the United States but have not been marketed in China from 1986 until 1993. This agreement is separate from the patent law. It is understood that such interim protection might be afforded by the appropriate department issuing administrative regulations. One question is whether such interim protection applies to the U.S. products, or to the products of other countries as well.

D. The Compulsory License

The agreement places strict limits on the conditions under which China can grant a Chinese firm a compulsory license to use a patent held by a U.S. firm in China, and includes a prohibition on granting compulsory licenses where the U.S. patent owner does not manufacture the product in

more and more the subject of international negotiations, both multilateral and bilateral, which has greatly enhanced the traditional status of IPRs. See Julio Nogues, Patents and Pharmaceutical Drugs: Understanding the Pressures on Developing Countries, 24 J. WORLD TRADE 81-83 (1990).

77 USTR, For immediate release, Jan. 16, 1992. In the revised Chinese Patent Law which was approved by the Standing Committee of the People’s Congress on Sept. 4, 1992, Article 25 of the law was amended to enlarge the scope of protection to cover pharmaceuticals and chemicals.

78 USTR Launches Section 301 Investigations into IP Practices of India and China, 42 FTCJ 152 (June 6, 1991).

79 There is one such precedent in China: the administrative regulations issued by the Department of Health, which grant under certain conditions exclusive rights to market certain foreign cosmetic products in China. As for the so-called pipeline protection, two separate laws were issued. One is Regulations On Administrative Protection of Pharmaceuticals, approved by the State Council on December 12, 1992 and promulgated by the State Pharmaceutical Administration on December 19, 1992. The other is Regulations on Administrative Protection of Agricultural Chemical Products, approved by the State Council on December 26, 1992 and promulgated by the Ministry of Chemical Industry by Decree No. 7 on December 26, 1992. Both of the regulations entered into force on January 1, 1993. There are also rules under these regulations. These regulations are basically in conformity with the principles set forth in the MOU, but there are some provisions about which doubts have been raised. For example, the Regulations on Administrative Protection of Pharmaceuticals in which it is interpreted that “pharmaceuticals” refers to medicines for human beings. But some U.S. reflections argue that medicines for animals should also be included.

80 Some agreements have also been concluded between China and other countries, such as the EC, Japan and Switzerland, for this kind of administrative protection.
This would certainly require an amendment to the related provisions of the Chinese Patent Law. Some restrictions on the conditions, such as the non-exclusivity of the nature of the license, reasonable royalty, and the possibility of judicial review, have already been included in these provisions. The additional limits on the conditions for granting the compulsory license seem to be focused on whether the working requirement, which is based on the Paris Convention, should be modified to some extent or should be replaced entirely by new provisions as proposed by the USTR, when the court decides that the patentee is in violation of the law of unfair competition and in the case of a national emergency. One possible solution may be to modify the provisions to the extent that these "strict limits" be incorporated within the current frame. This would amount to a compromise, rather than a replacement of the agreement.

E. Term of Protection and the Right to Import

The patent term is surely of great significance for patent protection. Because of the delay in protection due to the FDA procedures, it is of special importance for U.S. patentees who own pharmaceutical and chemicals patents. This is why the extension of the patent term was suggested to China. But as previously noted, China had already decided to extend the term of protection when it began to amend its patent law. It is therefore nothing new to say that China has agreed to extend the current term of 15 years from filing to 20 years. It seems that the longer term would only apply to patents which are filed after the new revised patent law enters into force.

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82 See Chapter VI Patent Law, Compulsory License of Exploitation of Patent, PRC. In the revised Patent Law, the original Article 51 which provided the working requirement was replaced by a new provision copied almost verbatim from the MOU. Thus, the working requirement as the condition for the grant of the compulsory license was removed. Article 52 is also a new section which provides that where a national emergency or any extraordinary state of affairs occurs, or where the public interest so requires, the Patent Office may grant the compulsory license. In the revised Implementing Regulations of the Patent Law, further conditions have been added so as to make the provisions on compulsory license accord with those of the MOU. See id. Articles 51 and 52; Rule 68 of the Implementing Regulations.
83 It is provided in the revised Patent Law that the term of patent right for inventions is 20 years, and the term of patent rights for utility models and designs is 10 years, counted from the date of filing. This applies to the patents which are filed after Jan. 1, 1993 when the revised Patent Law enters into force.
84 There is a new paragraph added to the original Article 11, which reads, "After the grant of the patent right, except as otherwise provided for in the law, the patentee has the right to prevent any other person from importing, without its or his authorization, the patented product, or the product directly obtained by its or his patented process, for the uses mentioned in the preceding two paragraphs."
During the negotiations, the USTR raised the issue of the right to import. The current Chinese Patent Law does not provide such a right, i.e. the patentee does have the right to exclude others from importing the patented product. The U.S. Patent Act does not provide such right to the product patent, but does provide it to the process patent. China is also considering the possibility of adding such right to its provisions when amending the patent law, which should eliminate conflict on this point.

IV. ISSUES ON COPYRIGHTS

A. Overview

Chinese copyright legislation has been long awaited, entering into force only recently. Despite the new law, copyright issues still seemed to be given high priority in the talks.

The USTR summarized the copyright issues as follows:

1) The copyright law falls short of internationally accepted standards in several areas, including fair use of compulsory licensing;
2) Works by foreign nationals must be published first in China to receive protection;
3) China will be unable to accede to the international copyright conventions; and
4) Until the new law is clarified and enforced, there is effectively no copyright protection in China.

B. Works by Americans

The first issue of copyrights is the protection of works by Americans. The Chinese Copyright Law provides:

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85 The U.S. Patent Act has added such right for products made by process patents in 1988 by the Process Patent Amendment Act, which is a part of the OTCA. See 35 U.S.C. § 271(g).
86 This has been realized by the revision of the Patent law which was completed in September, 1992.
87 The Copyright Law of PRC was adopted on September 7, 1990, effective on June 1, 1991. The Implementing Regulations of the Copyright Law were promulgated on and effective from June 1, 1991, and the Computer Software Protection Regulations were adopted by the State Council on May 24, 1991, effective from Oct. 1, 1991.
Any work of a foreigner published outside the territory of the People's Republic of China which is eligible to enjoy copyright under an agreement concluded between the country to which the foreigner belongs and China, or under an international treaty to which both countries are party, shall be protected in accordance with this law.89

The U.S. strongly insisted that such U.S. works be protected as soon as possible, either by Chinese accession to the international copyright convention (Berne or the Universal Convention), or by negotiating to establish a bilateral agreement to extend the Chinese protection to U.S. works. The Chinese side holds that both sides should negotiate on this issue to reach a bilateral agreement before China accedes to the international convention.90

As a result of the talks, both sides agreed to afford protection to works of the other side on a reciprocal basis, 60 days after the signing of the agreement, which settled the problem of protecting the U.S. works first published outside China. In fact, this agreement was effective as of March 17, 1992.91

This agreement, however, created a dilemma that China must deal with. If and when other countries would put the same question to China, would China follow the same model of negotiating individually with those countries, and sign similar bilateral agreements? Before China accedes to the international convention, this route might be the only way out, although it would be quite time-consuming. The best solution lies, of course, in earlier accession to the international convention.92

C. Protection of Computer Software

Although computer software is mentioned in the Chinese copyright law as "works," the law does not afford full protection to it, in declaring in Article 53 that "Regulations for the protection of computer software shall be

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89 The Copyright Law, Article 2.
90 See supra note 2, Article VI.
91 The National Copyright Administration of China announced that starting from March 17, 1992, U.S. works enjoy protection in China, and after the establishment of such mutual copyright protection ties between China and U.S., China's Copyright Law and relevant rules and regulations would be applicable to U.S. works. Further, the U.S. works include those created prior to the date the agreement was signed as long as they remain protected in the U.S. On the same day, President Bush issued a statement providing that the works of the P.R.C. would be protected in America from that day on. See CHINA DAILY, Mar. 24, 1992. China acceded to both international copyright conventions in 1992.
92 This has been solved by China's accession of these Conventions in 1992.
established separately by the State Council." Thus, the Computer Software Protection Regulations were created, which provide protection for computer software in accordance with the Copyright Law. But in some areas the regulations are different from the Copyright Law. The main differences in the Regulations are:

1) Rights of the owners and restrictions;
2) Requirement of registration;
3) Term of protection: 25 years after the first publication and a renewal of another 25 years; and
4) Separate administration.

The U.S. expressed strong opinions on these regulations. The essential point was that computer software should be accorded protection as literary work. This would mean that the owners of the computer software would enjoy the same rights as those under the Copyright Law. Moreover, no additional restrictions would be imposed, no registration would be required, and a term of 50 years would be provided.

Since computer software represents diverse industries and plays an important role in the development of economy, it makes sense that China does it this way. As in patent protection for chemical and pharmaceutical products, the industry has expressed similar worries about protection for computer software.

The situation is changing. Whereas the original draft regulations provided for a term of 25 years, the talks concluded that once China joins the Berne Convention, computer software should be protected as literary work with a term of 50 years. This commitment may have raised a problem for China to resolve, namely, how to amend the newly issued copyright legislation, in particular, the Computer Software Protection Regulations, as there would be doubts as to the basis for such legislation being separate.  

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93 The Copyright Law, Article 53.
94 Agreement Fact Sheet, Revised, Jan. 17, 1992. China issued Regulations on the Implementation of International Copyright Treaties before it acceded to both international conventions. In the Regulations, Article 7 clearly states, "where a foreign computer program is protected as a literary work, the registration procedure need not be gone through, and the term of protection shall be fifty years from the end of the year in which the program was first made public." The Copyright Law was thus amended to some extent. See Regulations on the Implementation of International Copyright Treaties.
95 The regulations remain the same. The problem was solved by the provisions which were issued by the State council before China acceded to the Conventions.
D. Rights and Restrictions

Chinese copyright legislation provides personal and property rights to authors and owners of works related to copyright and restrictions on these rights. This legislation "in principle, are in line with the copyright laws of many countries, as well as with the two major international conventions in the field of copyright." Nevertheless, the term "in principle" does carry with it some flexibility and there might be some sections in the legislation which does not fully accord with the international standard of protection provided by the international conventions. The U.S. commentators considered these sections as deficiencies. They should, nevertheless, affirm this legislation "in principle."

According to the U.S., the deficiencies may be summarized as restrictions on rights, especially the compulsory license, and a lack of rental rights in cases of computer software and sound recordings. As a result of the talks, China committed itself to provide rental rights to the owners of computer software and sound recordings. This commitment would help China in acceding to the Berne Convention.

E. The Berne and Geneva Conventions

The Berne Convention for the Protection of Literary and Art Works (The Berne Convention) is one of the two major international conventions to which the U.S. adheres. In drafting legislation, China has several times expressed its wish to accede to the convention. The bilateral talks greatly accelerated the process of China in this direction.

Accession to the Berne Convention is of great significance to China. It not only means that China will bring its level of protection up to a higher international standard but it also offers opportunities for China to have international exchanges in this field. In addition, China will not need to have bilateral negotiations with most countries and can further play its role internationally. The only question is "when," because a lot of things have to

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96 Song Muwen (Director General, National Copyright Administration of China) Correspondence-Letter from China, COPYRIGHT, Feb. 1991, at 43, 47.
97 For details, see U.S. Official Opinions on the Copyright Law of PRC. In the above-mentioned regulations, rental rights in case of computer software and sound recordings are also provided in Articles 14 and 18.
98 China has acceded to these Conventions in 1992 and 1993.
be done in preparation, both with respect to the legislative process at home and negotiations abroad. 99

The bilateral talks also resulted in committing China to join the Geneva Phonograms Convention, effective on June 1, 1993. 100 This reflects the special emphasis for the part of the United States on the protection of sound recordings.

It might be noted that there are some issues which are not mentioned here. As the commitments show, China would amend the Copyright Law and issue new regulations that implement the Berne and Geneva Conventions, and [consult] with the United States regarding the provisions of these new regulations. 101

V. ISSUES ON TRADEMARKS, TRADE SECRETS AND ENFORCEMENT

A. Trademarks

The USTR criticized the Chinese trademark protection on two points: the principle of first-to-register, and lack of legal recourse against trademark violations. 102 But this issue did not seem to have been discussed much, as it is not expressly mentioned in the agreement. Some of the reasons for this might be the following: first, the adoption of the principle of first-to-register by China is in accordance with either the Paris Convention or the proposed provisions in the GATT; 103 second, what the U.S. is most concerned with in this field is the lack of protection for well-known trademarks of U.S. firms. But in practice, China has already tried to provide such protection and has proposed such a change to its Trademark Law in accordance with the international convention. 104

99 It is reported that the bill to join the Convention would be passed before June 30, 1992, by the Standing Committee of the People's Congress. See People's Daily (Overseas Edition), Jan. 25, 1992.
101 Agreement Fact Sheet, Revised, Jan. 17, 1992. The revision of the Trademark Law was also completed at the beginning of 1993.
103 See supra note 51.
104 As reported from China, the draft of the revised Trademark Law has been sent for examination and approval. When the suggested legislation was discussed, the trade secret was proposed to be defined as any kind of data or information, including special formula, process and marketing method, etc., which is not disclosed to the public and can produce economic benefits or competitive advantages for the owner.
B. Trade Secrets

Although some kind of right to trade secret is implied in the current legislation, there are no provisions as to the liability for the third party who used another person's trade secret without consent. This would be one of the areas for China to improve or develop in the future. And, in fact, an unfair competition law which is said to address this specific issue, is now in the drafting process.

Thus, as a result of the talks, China will adopt legislation to protect trade secrets from unauthorized disclosure or use, including disclosure or use by third parties. It certainly adds new incentive to this process, but it is not an easy task.\(^{105}\)

C. Enforcement

Enforcement is an issue of special importance not only for the protection of U.S. and other foreign IPRs, but also for the Chinese. In fact, enforcement is vital to the success of an intellectual property system. Therefore, China has paid great attention to this issue and certain progress has been achieved in recent years.\(^{106}\)

There are, however, many problems which need to be further studied and resolved in this field. Some of these problems are:

1) Lack of relevant provisions in the law, such as contributory infringement in patent cases, the principle of equivalents applied in patent infringements, and specific provision for damages and remedies;\(^ {107}\)
2) Lack of more enforceable punishments, such as fines and other compensations for damage; and
3) Lack of strong and effective guidance over the courts and the administrative authorities, in particular, a lack of case decisions and a specialized court.

\(^{105}\) One obvious difficulty seems to be the terms and their definitions. In China, the term "know-how" is more widely used than "trade secret."

\(^{106}\) As far as patents are concerned, according to the Chinese Patent Office, up to 1990, the Administrative Authorities for Patent Affairs received a total of 1095 patent dispute cases and closed 749 cases. By the end of June 1990, the courts received a total of 360 patent cases and decided on 221 of them. See 1990 ANNUAL REPORT OF THE PATENT OFFICE OF PRC 22.

\(^{107}\) The draft of the revised Trademark Law has included such a provision.
In this regard, what the bilateral agreement accomplished is close to the necessary solutions. It committed China to adopt effective measures to enforce IPRs both in the Chinese domestic market and at China’s borders.\(^{108}\)

VI. CONCLUSIONS

China-U.S. trade negotiations on IPRs have been held under special circumstances, where the U.S. economy had entered into recession and the U.S. has had a large trade deficit with foreign countries. The U.S. has been intensifying its efforts to raise the competitiveness of its economy and to reduce its trade deficit by strengthening its IPRs both at home and abroad. The bilateral talks were held under the Special 301 provisions of the OTCA, which formed part of such U.S. international efforts.

The talks did not occur by accident. The negotiations on the IPRs had been greatly influenced by other factors such as economy and even politics. Particularly, the conclusion of the talks seemed to have much more significance in terms of economy and politics, rather than IPRs.

The U.S. applauded the agreement, calling it "long-awaited" and "historic,"\(^{109}\) as it would clearly benefit the U.S. trade and economy. China also applauded this agreement, saying that the agreement "once again demonstrates China's willingness to develop economic trade and technical cooperation and exchange between the two countries."\(^{110}\)

To conclude this article, I would emphasize the following points:

1) This agreement solved, at a critical time, one of the urgent disputes between the two countries under the Special 301 provisions and thus greatly helped in further developing the bilateral trade and other relations now;

2) The conclusion of this agreement provides China with solutions to the problems of IPRs China is or will be facing in GATT or WIPO negotiations. China's commitment to bring the level of protection of IPRs to an international standard will meet most of the GATT and WIPO requirements.;\(^{111}\)


\(^{111}\) These requirements include the WIPO sponsored harmonization activities in patent laws, of which the second half of the Diplomatic Conference is to be held in order to conclude the Treaty.
3) The Chinese intellectual property system is expected to be greatly improved, updated and highly internationalized when China fulfills its commitment. A higher and more internationalized level of intellectual property system, in the final analysis, accords with the basic policy of reform and opening to the outside world, and thus benefits the fundamental interests of China and the Chinese people;¹¹²

4) By this agreement, China committed itself to change its current intellectual property legislation. There will inevitably be further pressure on relevant national industries, in particular, those of chemicals, pharmaceuticals, computer software and publishing. The agreement also presents great challenges and opportunities to these industries. It is absolutely necessary and important for them to be fully aware of the significance of this agreement and the situation they are facing so that they may be well-prepared for the coming change;

5) The agreement will surely have great impact on both multilateral and bilateral activities of the U.S. in the area of IPRs. It may not be perfect, but it will certainly serve as encouragement for further efforts in this field.

¹¹² This theory has been affirmed by several Chinese officials. For example, Wu Yi, Deputy Minister of MOFERT of China and the head of the Chinese Delegation at the Negotiations, expressed the opinion that "to enhance the level of protection of IPRs of China, not only meets the need of further reform and opening to the outside world [and] the need of developing science and technology, but [also] meets the need of speeding up the construction of modernization of China." See PEOPLE'S DAILY (Overseas Edition), Jan. 20, 1992.