Pirated Goods Swamp China
Official Crackdown Has Little Effect

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Washington Post Foreign Service
Tuesday, September 7, 2004; Page E01

SHANGHAI, Sept. 6 -- China on Monday touted the impact of a recent crackdown on pirated goods, seeking to mollify criticism from the United States that it has done little to curb the brazen and widespread sale of such things as illegally copied Hollywood films, fake auto parts and pharmaceuticals.

At a news conference in Beijing, Zhang Zhigang, a vice minister of commerce, said China seized 2 million compact discs during the first half of the year in raids on 8,000 CD and software dealers around the country, fining violators about $3.6 million.

Meanwhile, in a scene familiar in every Chinese city, sidewalk merchants at one of Shanghai's most prominent intersections openly hawked CDs from artists such as Norah Jones and Bob Dylan for less than $1. A block away, a music and movie shop overflowed with an eclectic collection of pirated goods, including Spider-Man 2, Annie Hall and Winnie the Pooh DVDs and Britney Spears CDs.

The disconnect between the official word from the capital and the actuality of the street highlights the entrenched nature of one of the most nettlesome trade conflicts between Washington and Beijing. Though China is in the midst of one of a series of periodic crackdowns, experts said the continued blatant sales illustrate that the government is more interested in managing the politics of the problem than curbing the reality.

The authorities may be overmatched. In this still nominally Communist country of 1.3 billion people, the concept of private property is neither fully understood nor valued, let alone the abstract notion of intellectual property. Penalties for violations are weak and enforcement is spotty, experts said. Authorities often shield factories from raids, choosing to protect jobs over trademarks.

"It's difficult for the central government to impose its will on every street corner," said William D. Fisher, a lawyer with the Shanghai office of Lovells, an international firm that represents entertainment and video-game companies in patent and piracy disputes. "I've seen these announcements time and time again. It appeases the situation, then the problem emerges again."

Still, some change was evident in Shanghai on Monday. Vendors said police have in recent weeks forced them to move street-side stalls into alleyways. One vendor on Shanxi Road, who as recently as last week had her discs spread out for inspection, was instead approaching passersby with her wares cloaked inside a leather handbag -- a fake Louis Vuitton model.

Even as China's government sought to soothe the critics Monday, officials heaped doubt on two prominent complaints from American companies General Motors and Pfizer.

General Motors has accused a Chinese firm, Chery Automobile Co., of copying one of its models, the
Chevrolet Spark. Vice Minister Zhang said General Motors had failed to gain trademark protection for the car in China, adding that the case is still being reviewed.

General Motors said it remains confident that its position will be vindicated in ongoing discussions with China's Ministry of Commerce.

Pfizer has protested the Chinese government's July decision to revoke its patent on its popular impotence drug, Viagra. Fake versions of Viagra have been widely available in China ever since the drug's release. The government's decision clears the way for Chinese companies to make the drug legally. Zhang said Pfizer's patent was beset by technical problems.

In recent months, the Bush administration, facing pressure to address the United States' $124 billion trade deficit with China, has accused Beijing of unfair business practices. The United States has claimed that China maintains its currency at an artificially low value to make its exports cheaper while subsidizing major industries. Intellectual property has been a particularly frequent talking point. In visits here, Commerce Secretary Donald L. Evans has upbraided Chinese officials for failing to crack down on the trade.

Chinese officials have held their ground on the currency issue while dismissing claims that their country's growing stature in manufacturing has been gained unfairly. But intellectual property has been the lone area in which Beijing has consistently promised to do more. In April, during an official visit to Washington, Vice Premier Wu Yi pledged that the government would undertake stringent efforts to shut down sales of pirated software, movies and brand-name goods.

Since then, several high-profile busts have been trumpeted in the official Chinese press. In early July, authorities in Shanghai shut down a DVD export ring, arresting six people, including two Americans, while seizing more than $83,000 in cash and more than 200,000 DVDs, according to state press accounts.

But intellectual property experts said the recent activities have been more political theater than a genuine shift in market activity in an effort to give the Bush administration something it can use to declare progress in an election year.

Samuel D. Porteous, China country manager for Kroll Risk Consulting, which works for brand-name companies on anti-counterfeiting campaigns, said seizing fake CDs has no impact on the trade and amounts to the cost of doing business for those who lose the discs.

"They have to go much deeper into the problem," Porteous said.

The Motion Picture Association of America estimates that piracy cost its industry some $178 million in lost sales last year. Michael C. Ellis, the association's regional director in Hong Kong, said the problem worsened last year.

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