HOW SHOULD WE LOOK AT TRADE SECRETS MISAPPROPRIATION FROM CHINA'S ECONOMIC GROWTH?

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I. Introduction

A system for protection for intellectual property is a legal guarantee that fosters human creativity and strengthens the competitive power of a nation. Simon Kznets, winner of the 1971 Nobel Prize for Economics, believed that innovation in knowledge and technology was a precondition for economic growth in any historical era.[1] But he also pointed out that it was a necessary condition, rather than a sufficient condition, to create that growth. The sufficient condition, in fact, relates to institutional and ideological adjustments, if technology was to be employed sufficiently and widely and, if economic progress was to be stimulated by such use.[2] Douglas North, another Nobel Prize winner, who also emphasized the role of such a system, believed that "an effective mechanism for property protection containing managerial innovation and proper incentive for individuals was a decisive factor in facilitating economic growth", and that "the growth of the global economy was not the result of the Industrial Revolution, but rather rested on institutional mechanisms, in particular legal mechanisms for the determination of property ownership." He concluded that "it would have been impossible for modern industry to develop if there had been no guarantee of the right to personal property and income augmented by appropriate support systems and consistent incentives."[3]

As company operations and supply chains spread over the globe, numerous efforts must be put to protect trade secrets. In a 2012 index benchmarking the intellectual property systems of eleven economically diverse countries, including China, all received the lowest score possible on

[1] The reasonableness of this hypothesis is reflected in the history of the development of the Chinese economy since 1978. It is commonly accepted that, since that time, China has progressed at a very rapid pace economically, socially, and culturally.
[2] HAILING SHAN, THE PROTECTION OF TRADE SECRETS IN CHINA, 22-23 (2nd ed. 2008).
[3] *Id.* at 23.

trade secret protection due to inadequate legal system and enforcement against trade secret misappropriation.[4]

The article examines the economic growth following the Chinese economic reform, and the effect upon developing intellectual property protection system, the effect reversed upon international marketplace and global business collaboration. In particular, this article examines Chinese economic developmental strategy and its impact on business conduct arising out of the trade between the United States and China.

II. Background on Chinese Economy and Policies

China has set a goal of becoming an "innovation nation" by 2020 and a "global scientific power" by 2050.[5] Presently, China is still a developing country despite its rapid economic growth. One shortcut to push forward the process is through opening up into the global marketplace and absorbing useful information relating to cutting edge technologies and advanced scientific research in developed countries. On the one hand, China has engaged in extensive economic and technological exchanges and cooperation with other countries and regions. On the other hand, with the opening of a commercial gateway into China, western concepts of law have flooded into China. China has in turn reconstructed its legal system with unprecedented courage in line with demand of the international marketplace, "making outstanding achievements, in particular through the setting up of an intellectual property protection system."[6] In reviewing the World Intellectual Property Organization's past twenty years of cooperation with China, Dr.

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[4] Global Intellectual Property Center, *Measuring Momentum - The GIPC International IP Index,* 48, 54, and 65, *available at* http://www.theglobalipcenter.com/measuring-momentum-the-gipc-international-ip-index/ [hereinafter GIPC Index].

[5] "The National Medium – and Long-Term Plan for the Development of Science and Technology (2006-2020)," State Counsel, People's Republic of China.

[6] HAILING SHAN, THE PROTECTION OF TRADE SECRETS IN CHINA, at 20 (2nd ed. 2008).

Arpad Bogsch, former director-general of the Organization of Intellectual Property, points out that "China has accomplished all this at a speed unmatched in the history of intellectual property protection."[7] But Rome was not built in a day. There is still a considerable gap between the legal system in China and that in western countries, which as a consequence, has created barriers for U.S. firms to seek civil justice in China. According to a survey by the United States International Trade Commission (USITC), between 2007 and 2009, only 0.6% of U.S. firms injured by trade secrets theft in China pursued trade secrets misappropriation proceedings in China.[8]

China underwent a process of development in the scope of trade secret protection: first industrial technology, then know-how, followed by industrial and commercial secrets, and finally trade secrets. The concept of trade secrets in the Law against Unfair Competition includes industrial technology and technical secrets, as well as industrial and commercial secrets as contained in the provisions of former laws, and basically conformed to the international trend in definition and scope.[9] However, Chinese law places stricter demands on what constitutes a trade secret than does TRIPS or other relevant laws of the United States or other countries.[10] "Among the challenges highlighted in enforcing trade secrets in China are: constraints on evidence-

[7] Central People's Government of PRC, "Status Quo of Intellectual Property Protection in China", www.gov.cn/zwgk/2005-05/27/content_1605.htm, 1 January 2008.
[8] KURT CALIA, et.al., Economic Espionage and Trade Secret Theft: An Overview of The Legal Landscape and Policy Responses, Covington & Burling LLP, September (2013) (quoting U.S. Int'l Trade Comm'n. Pub. 4226, *China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy*, 3-44 (May 2001), *available at* http://www.usitc.gov/publications/332/pub4226.pdf.)
[9] HAILING SHAN, THE PROTECTION OF TRADE SECRETS IN CHINA, at 27 (2nd ed. 2008).
[10] The State Industrial and Commercial Administrative Bureau, in promulgating the Law against Unfair Competition, asserted that technical and managerial information includes designs, procedures, directions for products, process technologies, know-how, client lists, information regarding supply of goods, strategy for production and sale, sealed tenders (in the submission of tenders or innovations to bid) and the content of bidding documents (in the submission of tenders or invitations to bid).

gathering for use in litigation, difficulties in meeting the criteria for establishing that information constitutes a trade secret, unclear criminal threshold requirements, significant prosecutorial delays, difficulties obtaining preliminary injunctions, and a lack of deterrent penalties."[11] The very first preliminary injunction granted in a trade secret case was heard by Shanghai No. 1 People's Court, representing "a potential positive step forward toward improving trade secrets protection in China."[12]

III. Trade Secret Laws in the U.S. and China

In the United States, A trade secret is useful commercial information that gives a competitive advantage as to its owner by being kept secret. Unlike patents and copyrights, which do not protect ideas, trade secrets also protect ideas, but only if their secrecy is maintained. An owner of a trade secret has rights only against those who (a) have agreed, either explicitly or implicitly, not to disclose the secret information, or (b) have obtained the secret information by misappropriation. The Uniform Trade Secrets Act of 1976 ("UTSA") defines a trade secret as information, including formula, pattern, compilation, program, device, method, technique, or process that: (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means, other persons who can obtain economic value from its disclosure or use, and (2) is the subject of efforts that are

[11]KURT CALIA, et.al., Economic Espionage and Trade Secret Theft: An Overview of The Legal Landscape and Policy Responses, at 14, Covington & Burling LLP, September (2013) (citing from Office of the United States Trade Representative, *2013 Special 301 Report*, 33 (May 1, 2013), *available at* http://www.ustr.gov/sites/default/files/05012013%202013%20Special%20301%20Report.pdf [hereinafter USTR Special 301 Report]; GIPC Index, *supra* note 59, at 50.).

[12] *Id.* at 14 (citing from *Ex-employee banned from circulating trade secrets*, Shanghai Daily (Aug. 3, 2013), *available at* http://www.china.org.cn/china/2013-08/03/content_29613779.htm).

reasonable under the circumstances to maintain its secrecy.[13] "It is not enough to point to broad areas of technology and assert that something there must have been secret and misappropriated. The plaintiff must show concrete secrets."[14]

Misappropriation is the wrongful acquisition, disclosure or use of a trade secret. The UTSA defines it as (a) acquiring a trade secret through improper means or from another person knowing that the person acquired the secret by improper means, or (b) disclosing or using the secret without consent when the circumstances created a duty not to disclose or use it.[15] The two principal claims that are asserted in misappropriation civil cases are breach of contract and breach of confidence. The UTSA imposes civil rather than criminal liability for misappropriation of trade secrets. Remedies for misappropriation of trade secrets under the UTSA are injunctions including preliminary injunction relief for both threated and actual misappropriation, damages (actual losses as well as unjust enrichment), including exemplary damages, if the conduct was found to be "in bad faith", or "willful and malicious", and reasonable attorney's fees.[16]

Criminal trade secrets statutes include the Economic Espionage Act of 1996 ("EEA"),[17] which is the federal law criminalizing misappropriation of trade secrets intended to benefit foreign governments or agents,[18] Federal Computer Crime Laws ("CFAA"),[19] and state laws.

Over the past two decades, china has developed a wide range of laws, regulations, and judicial interpretations designed to protect the rights of intellectual property owners.[20] Trade

[13] Uniform Trade Secrets Act of 1979 §1(4).
[14] Composite Marine Propellers, Inc. v. Van Der Woude, 962 F.2d at 1266 (7th Cir. 1992)
[15] Uniform Trade Secrets Act of 1979 §1(2).
[16] *Id.* at §§§ 2, 3, 4.
[17] Economic Espionage Act of 1996, 18 U.S.C. §§1831-39.
[18] 18 U.S.C. § 1831.
[19] CFAA is the principal federal statute creating criminal and civil liability for unauthorized access to computers that are used in the United States in interstate commerce.

secret laws in China are substantially the same, but the evidentiary burden is defined differently. There are three ways to enforce trade secrets law in China, including civil litigation, administrative enforcement and criminal enforcement. Civil remedies, including permanent injunctions and damages, are available for trade secrets misappropriation. Damages are typically assessed in reference to patent law, and are based on losses to trade secrets owners, profits following misappropriation, reasonable royalty or discretionary damages. Where a statute of limitation is applicable, trade secret owners may claim up to two years of damages for continuous misappropriation.[21] Administrative enforcement can be initiated at Local Administrations for Industry & Commerce (AICs) against trade secrets misappropriation. AICs can impose administrative fines, and order the return or destruction of materials. However, administrative enforcement may not be suitable for complex technical cases and does not usually grant damages awards to owner of trade secrets.[22] Cases exceeding criminal thresholds can be investigated by Public Security Bureau (PSBs), which result in both fines and prison sentences.[23]

Without the same discovery system as is in the US, the enforcement of trade secrets in China is not straightforward. The evidentiary burden for a plaintiff to bring a trade secrets misappropriation case in Chinese courts is relatively high.[24] Therefore, most U.S. firms who are unable to bring actions against Chinese companies in a Chinese court would file lawsuits in U.S. district courts against Chinese companies who allegedly misappropriated their trade secrets.

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[20] J. BENJAMIN BAI, GUOPING DA, Strategies for Trade Secrets Protection in China, Northwestern Journal of Technology and Intellectual Property, 9(7), at 351 (2011).
[21] *Id.* at 369.
[22] *Id.* at 361-362.
[23] *Id.* at 364.
[24] *Id.* at 369.

IV. From Business Information to Economic Espionage

The complexity of a trade secret misappropriation cases lies in the value of the "secret" to a competitor. Upon obtaining proprietary business information, competitors may price out a seller out of business by underbidding its customers, when they offered a better price to the customer. In Guang Dong Light Headgear Factory v. ACT Int'l, [25] pricing information (seller's "pricing structure, product development and profitability") amount to "trade secrets" because it would jeopardize seller's position in the market since it contained the price seller would ultimately charge the customers. In most cases, non-competition and non-disclosure agreements can be an efficient tool to guard proprietary information and maintain its secrecy, if another party signed on it. But not all proprietary information falls within the definition of a "trade secret". Courts have distinguished between a process or device used to run a business and that produced by the business itself; the former qualifies as a trade secret but the latter does not.

In Four Star Capital Corp. v. NYNEX Corp.,[26] plaintiff was a company engaged in finding business opportunities in China, claimed that it developed proprietary information of customers in the course of its business, and that such information "included, but was not limited to, the identity of plaintiff's customers, the names of individuals within each customer's organization, each customer's desires and preferences as to products marketed by plaintiff, and financial details for each customer."[27] However, plaintiff's propriety customer information was developed in the business of providing intelligence about the business landscape in China—which intelligence presumably consisted of the very information that plaintiff now alleges was its trade

[25] Guang Dong Light Headgear Factory v. ACT International Inc., 521 F.Supp.2d at 1173 (D.Kan. 2007) (These documents, according to ACI, contained the prices that ACI ultimately charged its customers, rather than the price that it paid for the products. *Id.*).
[26] Four Star Capital Corporation v. NYNEX Corporation, 183 F.R.D. 91 (S.D.N.Y. 1997).
[27] *Id.* at 107.

secret.[28] Based on this, it is doubtful that plaintiff's information is protectable under a misappropriation analysis. [29]

The EEA's definition of "misappropriation of trade secrets" is derived from the definition that appears in the Uniform Trade Secrets Act, a model statute which permits civil actions for the misappropriation of trade secrets. The EEA further provides, in pertinent part: "Whoever, intending or knowing that the offense will benefit any foreign government foreign instrumentality, or foreign agent, knowingly— (3) receives, buys, or possesses a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted without authorization; shall be fined not more than $500,000 or imprisoned not more than 15 years, or both."[30] To convict under § 1831 of the EEA, the government must prove that defendant acted with the intent to benefit a "foreign government, foreign instrumentality, or foreign agent."[31] Unlike the foreign agent count, which required evidence of a foreign government's direction or control, criminal liability under the EEA may be established on the basis of Defendant's intent alone.

In US v. Chung, defendant, a former Boeing engineer, was convicted for violating Economic Espionage Act of 1996 ("EEA"), and conspiring to violate EEA, with regard to government contractor's documents relating to phased array antenna to be used on space shuttle, the appeals court held that these documents constituted "trade secret" under EEA.[32] Evidence supported finding include 300,000 pages of Boeing documents, which were found in Defendant's

[28] *Id.* at 108.
[29] *Id.*
[30] 18 U.S.C. § 1831(a)(3).
[31] 18 U.S.C. § 1831(a).
[32] U.S. v. Chung, 659 F.3d at 818 (9th Cir. 2011).

home.[33] Four of the documents relate to a phased array antenna that Boeing developed for the space shuttle, "such information was significant because it established that Boeing could install antenna modules on the space shuttle without a system for active cooling."[34] (Defendant argues that the documents related to the phased array antenna did not contain trade secrets, since the documents contain information similar to that presented by Boeing engineers at a NASA-sponsored conference that was attended by Boeing's competitors. Id. at 826. But the portions of those documents relating to the number of elements in the phased array antenna were *not* disclosed at the conference. Id.) Boeing implemented general physical security measures for its entire plant, through security guards, and reserved the right to search all employees' belongings and cars, and in addition, the training sessions instructing employees as to what to share with outsiders, and to sign confidentiality agreements.[35] The phased antenna array documents secret has economic value since it would "tip off competitors to more than just the costs associated with this specific project,"[36] and show a competitor how Boeing operates – "not just related to the integration, but has implication for everything else" Boeing was working on. [37]

Defendant intended to benefit China by providing technical information responsive to requests from Chinese officials and by delivering presentations to Chinese engineers.[38] Government presented such evidence that could be traced back to 1980s. Due to his history of passing technical documents to China, "a rational trier of fact reasonably could infer from Defendant's more recent possession of similar documents that his intent to benefit China

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[33] *Id.* at 824.
[34] *Id.* at 826.
[35] *Id.*
[36] *Id.* at 827 (Boeing engineer testified that the estimates of hours, ties to the list of tasks, and although Boeing had no competitors for the integration project itself, a competing company might bid against Boeing for integration work.).
[37] *Id.* at 827.
[38] *Id.* at 828.

persisted well into the limitations period and extended to his possession of the trade secrets," absent any scholarly or literary intentions that he possessed the documents because he intended to write a book.[39]

V. Substantive Due Process Challenges

When a foreign defendant is sued in a U.S. district court, it is most likely than not that the Defendant would file in her counterclaims, contesting the appropriateness of jurisdiction and venue. Reviewing the standards might shed light on how courts rule on these challenges brought up in counterclaims, or in Defendant's memorandum of law in support of motion to dismiss.

A. Personal Jurisdiction

"In evaluating the appropriateness of personal jurisdiction over a nonresident defendant, [courts] ordinarily examine whether such jurisdiction satisfies the 'requirements of the applicable state long-arm statute' and 'comports with federal due process.'"[40] "For due process to be satisfied, a defendant, if not present in the forum, must have 'minimum contacts' with the forum state such that the assertion of jurisdiction 'does not offend traditional notions of fair play and substantial justice.'"[41] "There are two types of personal jurisdiction: general and specific."[42] Specific jurisdiction is relevant only if the defendant's "contacts with the forum give rise to the

[39] *Id.* (The Court held that the evidence in the light most favorable to the prosecution, there was sufficient evidence to conclude, beyond a reasonable doubt, that Defendant possessed the trade secret documents with the intent to benefit China.)
[40] Bauman v. Daimler-Chrysler Corp., 644 F.3d 909, 919 (9th Cir.2011) (quoting *Chan v. Soc'y Expeditions, Inc.*, 39 F.3d 1398, 1404–05 (9th Cir.1994)).
[41] Pebble Beach Co. v. Caddy, 453 F.3d at 1155 (quoting *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 315, 66 S.Ct. 154, 90 L.Ed. 95 (1945)).
[42] Ziegler v. Indian River County., 64 F.3d 470, 473 (9th Cir.1995).

cause of action before the court."[43] By contrast, "when the cause of action does not arise out of or relate to the foreign corporation's activities in the forum State," the State is exercising 'general jurisdiction over the defendant."[44] "If a plaintiff's claims relate to different forum contacts of the defendant, specific jurisdiction must be established for each claim."[45]

In S&D Trading Academy, LLC v. AAFIS,[46] the Court said while plaintiff's trade secrets were allegedly misappropriated in China, the first step of the alleged misappropriation—learning the trade secrets—occurred in Texas. If the Defendant had not obtained the intellectual property in Texas, they would not have been able to misappropriate it.[47] (The Chinese day traders came to Texas to learn S & D's day trading method,[48] and took this intellectual property back to China with them and allegedly misappropriated it there.)

Finally, when misappropriation of trade secrets claim is "so intertwined with its breach of contract claim that due process would not be offended if the Court were to exercise specific jurisdiction over both claims after finding that the breach of contract claim" arose out of defendant's contacts in the forum state.[49]

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[43] Bauman v. Daimlerchrysler Corp., 644 F.3d at 919 (quoting *Doe v. Unocal,* 248 F.3d 915, 923 (9th Cir.2001)).
[44] *Id.* (quoting *Helicopteros Nacionales de Colombia, S.A. v. Hall,* 466 U.S. 408, 414, 415 n. 9, 104 S.Ct. 1868, 80 L.Ed.2d 404 (1984)).
[45] Seiferth v. Helicopteros Atuneros, Inc., 472 F.3d 266, 275 (5th Cir.2006).

[46] *Id.*
[47] *Id.*
[48] *Id.* (Day trading trainer brought diversity action against nonresident corporation, its majority shareholder, principal officer, and director, and related person, alleging breach of contract and misappropriation of trade secrets. Corporation brought motion to dismiss on grounds of lack of personal jurisdiction.)
[49] S & D Trading Academy, LLC v. AAFIS, Inc., 494 F.Supp.2d at 567 (S.D.Tex. 2007)

B. Choice of Law

When the alleged injury occurred in more than one state, according to the Restatement, the place of injury is entitled to little weight.[50] In Good Earth Lighting, Inc. v. New Chao Peng Industrial Co.,[51] Defendant sold fixtures incorporating plaintiff's misappropriated trade secrets "to retail stores across the United States," but the most significant contact is the location of defendant's conduct, which in this case, is Taiwan. Although Good Earth Lighting, Inc. ("GEL") was injured by nationwide sales, the allegedly unlawful conduct, manufacturing and selling flourescent lighting fixtures to U.S. customers other than GEL, occurred in Taiwan. Therefore, the significant contacts test of the Restatement favors applying Taiwanese, not Illinois, law to the parties' trade secrets dispute.[52]

C. Forum Non Conveniens

Forum non conveniens is a nonmerits ground for dismissal.[53] It is an exceptional tool to be employed sparingly, but not a doctrine that "compels plaintiffs to choose the optimal forum for their claim."[54] The standard to be applied for a motion to dismiss on the ground of forum non conveniens is whether the defendants have made a clear showing of facts which establish that trial in the chosen forum would "establish such oppression and vexation of a defendant as to be out of proportion to plaintiff's convenience."[55] Therefore, a party moving to dismiss based on forum non conveniens bears a heavy burden of showing (1) that there is an adequate alternative forum, and (2) that the balance of public and private interest factors favor dismissal of

[50] Restatement (Second) of Conflict of Laws § 145(1), cmt. f (1971)
[51] Good Earth Lighting, Inc. v. New Chao Peng Industrial Co., 1999 WL 58555*3
[52] *Id.*
[53] American Dredging Co. v. Miller, 510 U.S. 443, 447-448, 114 S.Ct. 981, 127 L.Ed.2d 285 (1994).
[54] Boston Telecomm. Grp., Inc. v. Wood, 588 F.3d 1201, 1206 (9th Cir.2009).
[55] American Dredging Co. v. Miller, 510 U.S. at 447-48 (1994).

suit.[56] Unless the balance of "private interest" and "public interest" factors strongly favors trial in the foreign country, a plaintiff's choice of forum will not be disturbed.[57]

> [T]he private interest factors are: (1) the residence of the parties and the witnesses; (2) the forum's convenience to the litigants; (3) access to physical evidence and other sources of proof; (4) whether unwilling witnesses can be compelled to testify; (5) the cost of bringing witnesses to trial; (6) the enforceability of the judgment; and (7) all other practical problems that make trial of a case easy, expeditious and inexpensive. The public interest factors are: "(1) the local interest in the lawsuit, (2) the court's familiarity with the governing law, (3) the burden on local courts and juries, (4) congestion in the court, and (5) the costs of resolving a dispute unrelated to a particular forum."

See Boston TelecommunicationsGroup,Inc. v. Wood, 588 F.3d at 1206-07 (9th Cir.2009); *see also* Tuazon v. R.J. Reynolds Tobacco Co., 433 F.3d 1163, 1181 (9th Cir.2006).

In Cybersitter, LLC v. PRC,[58] Defendants moved to dismiss the action for forum non conveniens arguing that California is an inconvenient forum and the dispute should be heard in China, since they would be severely burdened if the case were to be litigated in California rather than China due to "the difficulty of compelling third-party witnesses to testify in California and the substantial cost of transporting witnesses and evidence to California and translating documents from Chinese to English." [59] The Court said defendants failed to show that their inability to compel potential witnesses to testify in California, the costs they would incur in transporting witnesses and evidence to California, or any other factor would result in

[56] Lueck v. Sundstrand Corp., 236 F.3d 1137, 1142-43 (9th Cir.2001).
[57] Gates Learjet Corp. v. Jensen, 743 F.2d 1325, 1334 (9th Cir.1984).

[58] Cybersitter, LLC v. PRC, 805 F.Supp.2d 958 (C.D.Cal. 2011).
[59] *Id.* at 966.

"oppressiveness and vexation" to them "out of all proportion to plaintiff's convenience."[60] (The court also considered the alternative that witnesses for Defendants may be forced to testify with the assistance of a translator.)

As far as public interest factors go, Courts have held that to "timely decide a case" serves the public interest to "ensure that a United States owner of intellectual property has a forum to seek redress for alleged misuse by another United States citizen living here."[61] The choice for the plaintiff, as a United States corporation, to sue in the United States rather than in China is ordinarily given significant deference.[62]

D. Doctrine of Abstention

Abstention from the exercise of federal jurisdiction "is the exception, not the rule."[63] The standard to establish such exceptions can be counterintuitive. In RF Micro Devices v. Xiang,[64] defendant contended that the United States District Court for the Middle District of North Carolina should either stay or dismiss Plaintiff's federal lawsuit under the *Colorado River* abstention doctrine. The Court found that the case fails to present the exceptional circumstances required for abstention because its task "is not to find some substantial reason for

[60] *Id.* ("If that alone were sufficient to dismiss a case for forum non convenience, American plaintiffs rarely would have the opportunity to prosecute claims against foreign defendants in American courts. Therefore, the private factors weigh in favor of the Court hearing the case.)
[61] Jacobs Vehicles Systems, Inc. v. Yang, 2013 WL 4833058 *2. (The Plaintiff, Jacobs Vehicles Systems ("JVS") seeks to protect its alleged trade secrets developed in the United States, against a former employee who it claims has misappropriated them for the benefit of a JVS competitor in China. The controversy will affect not only JVS's Chinese interests but also affect the integrity of JVS's contractual and intellectual property interests in the United States. *Id.*)
[62] *See* SAS Institute, Inc. v. World Programming, Ltd., 468 F. App'x 264, 266–67 (4th Cir.2012)
[63] Colo. River Water Conservation Dist. v. United States, 424 U.S. 800, 813, 96 S.Ct. 1236, 47 L.Ed.2d 483 (1976); *see also id.* at 817 (noting the "virtually unflagging obligation of the federal courts to exercise the jurisdiction given them").
[64] RF Micro Devices v. Xiang, 2013 WL 5462295 *3

the exercise of federal jurisdiction," but rather "to ascertain whether there exist 'exceptional' circumstances, the 'clearest of justifications,' ... to justify the *surrender* of that jurisdiction." [65]

E. Foreign Sovereign Immunity

Under Foreign Sovereign Immunities Act ("FSIA"), a foreign sovereign is presumptively immune from suit in federal court, but presumption erodes when the suit concerns the sovereign's commercial activities and transactions.[66] Commercial activity exception, which vitiates a foreign sovereign's immunity in an action "based upon a commercial activity carried on in the United States."[67] The commercial activity exception is codified in § 1605(a)(2): A foreign state shall not be immune from the jurisdiction of courts of the United States or of the States in any case in which the action is based upon a commercial activity carried on in the United States by the foreign state; or upon an act performed in the United States in connection with a commercial activity of the foreign state elsewhere; or upon an act outside the territory of the United States in connection with a commercial activity of the foreign state elsewhere and that act causes a direct effect in the United States.[68]

In determining whether the activity is commercial, the "FSIA directs courts to look to the nature of the activity in question, rather than to its purpose." "Even if performed with a public purpose in mind, acts by governmental entities are considered commercial in nature if the role of

[65] Moses H. Cone Mem'l Hosp. v. Mercury Constr. Corp., 460 U.S. 1, 25–26 (1983).

[66] 28 U.S.C.A. §§ 1602, 1604, 1605(a)(2). (The FSIA "provides the sole basis for federal jurisdiction" over claims against a foreign state and its instrumentalities, and "creates a statutory presumption that a foreign state and its instrumentalities are immune from suit unless one of the specific exceptions enumerated in sections 1605 through 1607 of the Act applies." *Exp. Grp. v. Reef Indus., Inc.*, 54 F.3d 1466, 1469 (9th Cir.1995))

[67] 28 U.S.C. § 1605(a)(2).

[68] *Id.*

the sovereign is one that could be played by a private actor."[69] As a result, "an activity is commercial unless it is one that only a sovereign state could perform."[70] "A foreign state that engages in commercial activity may still be immune unless the action had a direct effect on a plaintiff occurring in the United States."[71] "[A]n effect is 'direct' if it follows as an immediate consequence of the defendant's activity."[72] Although the "mere financial loss by a person—individual or corporate—in the [United States] is not, in itself, sufficient to constitute a 'direct effect,'" if a "legally significant act giving rise to the claim occurred" in the United States, then a direct effect exists.[73] "To satisfy the 'in connection with' requirement, the acts complained of must have some 'substantive connection' or a 'causal link' to the commercial activity."[74]

In BP Chemicals v. Jiangsu Sopo Corp.,[75] BP Chemicals owned a trade secret of acetic acid in paint which it has licensed around the world. The United States District Court for the Eastern District of Missouri granted defendant's motion to dismiss on basis of sovereign immunity, in that Sopo was considered a "foreign sovereign" since it is owned by the government of the People's Republic of China.[76] The Court of Appeals held that claim for misappropriation of trade secrets under Missouri Uniform Trade Secrets Act ("MUTSA") was based upon defendant's commercial activity carried on in the United States, and thus came

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[69] Park v. Shin, 313 F.3d 1138, 1145 (9th Cir.2002).
[70] *Id.*
[71] Meadows v. Dom. Rep., 817 F.2d 517, 523 (9th Cir.1987).
[72] Repblic of Argentina v. Weltover, 504 U.S. at 618 (1992) (internal citation and quotation marks omitted); *United States v. LSL Biotechnologies*, 379 F.3d 672, 680 (9th Cir.2004) (recognizing *Weltover'* s definition of direct effects).
[73] Adler v. Federal Republic of Negeria, 107 F.3d at 726–27 (1997) (internal citation and quotation marks omitted).
[74] *Id.* at 726 (quoting *Fed. Ins. Co. v. Richard I. Rubin & Co.*, 12 F.3d 1270, 1289–91 (3rd Cir. 1993)).

[75] BP Chemicals LTD. v. Jiangsu Sopo Corp., 285 F.3d 677 (8th Cir. 2002)
[76] *Id.* at 677.

within commercial activity exception to general grant of sovereign immunity under FSIA. [77] Sopo, through its agent, another government-owned business, solicited business from vendors in the United States on an ongoing basis. Since such commercial activity was carried on in the United States, Sopo is not immune from BP's suit in federal court.

The focus of commercial acts is not on whether the purpose of conducting such acts is for a private entity, or a government. In addition, the alleged misappropriator does not have to be "a necessary and indispensable party"[78] in the case, so long as the direct effect of such commercial acts occurred in the United States. In Cybersitter,[79] one Defendant Haier moves to dismiss the action in its entirety contending that a necessary and indispensable party—the People's Republic of China ("PRC")—is immune from this suit. The Court conducted the analysis of the "commercial activity" prong first, without deciding that the PRC is a necessary and indispensable party. Since the PRC "engaged in the purely economic conduct of licensing, sublicensing, distributing, and promoting the software program known as Green Dam at issue in this litigation," specifically, the PRC allegedly paid defendant's employees approximately $6.9 million for a one-year license to distribute the Green Dam program, and pursuant to that license, the PRC "has made the Green Dam program available for free downloading worldwide on the Internet, including on its own official site, as well as on many other privately owned Internet sites," the PRC's purchase of the licensing and distribution rights to the Green Dam program and subsequent sublicensing of the program to manufactures were therefore commercial acts.[80]

[77] *Id.* at 680.
[78] Cybersitter, LLC v. PRC, 805 F.Supp.2d at 966 (C.D.Cal. 2011)
[79] *Id.* at 966.
[80] *Id.* at 967.

Whether the PRC conducted this business for a governmental purpose is irrelevant.[81] Finally, the injury occurred at Plaintiff's principal place of business in California. Thus, the PRC's actions had a direct effect in the United States. (The causal link between the PRC's activity and plaintiff's claim was established to satisfy the "in connection with a commercial activity" prong, through plaintiff's claims of misappropriation of trade secrets, copyright infringement, unfair competition, and civil conspiracy, based upon, in part, on the PRC's licensing of the Green Dam program and subsequent sublicensing and distribution of the program through manufacturers and various websites without Plaintiff's consent. Id.at 967.)

VI. Upward Trend in Trade Secrets Litigation

A. Does *TianRui v. ITC* Reflect A Future Trend?

In the United States, a U.S. corporation may pursue an administrative agency proceeding prior to bringing a trade secrets misappropriation action against a foreign company in a U.S. district court. The United States International Trade Commission (ITC), with its broad jurisdiction, has been a unique stage for domestic intellectual property right owner to seek justice. Under Section 337 of the Tariff Act of 1930, the ITC exercises *in rem*, as well as *in personam* jurisdiction. Therefore, a foreign trade-secret misappropriator cannot be "immune from scrutiny if the act of misappropriation occurred overseas."[82] In 2009, the ITC issued a limited exclusion order against TianRui, a Chinese company.[83] The Plaintiff, Amsted Industries Inc. filed a

[81] *Weltover*, 504 U.S. at 617 (holding that Argentina's issuance of certain bonds was a commercial activity under FSIA because "it is irrelevant why Argentina participated in the bond market in the manner of a private actor; it matters only that it did so.").
[82] *Id.* at 1329.
[83] The ITC can investigated actions involving trade secrets and exclude the importation of goods that violate the right of an intellectual property owner, who filed the complaint.

complaint with the ITC alleging a violation of Section 337 based on TianRui Group Co., Ltd.'s misappropriation of trade secrets.[84] TianRui Group Co., Ltd. and TianRui Group Foundry Co., Ltd. manufacture steel railway wheels in China. In 2005, TianRui attempted to enter into a license agreement with Amsted's wheel manufacturing technology but failed to do so because of parties' disagreement on certain terms of the license. TianRui then hired nine employees from one of Amsted's Chinese licensees, Datong ABC Castings Co., Ltd.[85] Datong had expressly notified its employees that information related to the ABC process was proprietary and confidential.[86] The ALJ found that TianRui had misappropriated 128 trade secrets that were owned by Amsted, and concluded that substantial injury on Amsted's domestic injury has been established.[87] The Commission issued a limited exclusion order. TianRui appealed the Commission's decision to the Federal Circuit, contesting the ITC's authority to apply Section 337 extraterritorially on the ground that Congress did not intend for section 337 to be applied extraterritorially.[88]

The CAFC affirmed the Commission's ruling.[89] While the administrative law judge at the ITC analyzed the alleged misappropriation under Illinois trade secret law[90], the Federal Circuit held[91] that a single federal standard, rather than the law of a particular state, should determine what constitutes a misappropriation of trade secrets sufficient to establish an "unfair method of competition" under section 337. The court also cited the Restatement of Unfair Competition and

[84] Tianrui Group Co. v. International Trade Com'n, 661 F.3d 1322, 1325 (2011).

[85] *Id.* at 1324.

[86] *Id.*
[87] *Id.*
[88] *Id.* at 1325, 1326.
[89] *Id.* at 1324.
[90] *Id.* at 1325.
[91] *Id.* at 1327.

the Uniform Trade Secrets Act as authorities.[92] The Court seems to have taken on a guardianship role to maintain a level of fair play in the domestic market involving American and international competitors.

B. Competition between the U.S. and China Is a Major Concern

China has made great achievements in the past 20 years. On the global economic sense, China's growth over the last two decades has been unprecedented. At the end of 1990 and even up to early 2000s, many scholars believed that China could not continue with its annual growth rate due to the lack of fundamental reforms. But China's annual growth rate during the period 1990 – 2010 has increased to 10.4%, compared to 9.0% between the period of 1979 – 1990.[93] In particular, China's average annual trade growth rate measured in current U.S. dollar between 1990 and 2010 was an astonishing 17.6 %. At the beginning of that period, China's exports represented a mere 1.3% of global exports, compared to its present global share of 8.4%.[94] Scholars have predicted that China can maintain 8% annual growth rate for another two decades. The benefits shared and opportunities created by China's growth for high-income and developing countries is, China's growth will expand markets for their capital goods and intermediate good exports. At the mean time China will expand its overseas market by exporting more commodities, high-technology based, or not, into the western world.

As mentioned in the *Introduction*, China has set a goal of becoming an "innovation nation" by 2020 and a "global scientific power" by 2050. The trend from exportation of non-high

[92] *Id.* at 1328.
[93] GORDON H. CHANG, The Coming Collapse of china (2001).
[94] JUSTIN YUFU LIN, Sr. Vice President and Chief Economist World Bank, China and the Global Economy, remarks given at University of Science and Technology, Hong Kong, March 23, 2011.

technology commodities to high technology products will draw the attention of China's global competitors. As a result, the increasing infringement wars among different brands can be imagined. One way to exclude a competitor from the U.S. marketplace is to ban importation. For a U.S. company, perhaps, the ITC proceeding and a parallel U.S. district court proceeding would put its Chinese competitor in a vulnerable position, with both limited time to prepare the response and potential loss of the market shares.

VII. Conclusion

Over the last five years, the global economy has witnessed its most tumultuous times since the Great Depression. The impressive coordinated policy complied by the G-20 nations has rescued the world from the worst possible scenario, and finally economic activity is now recovering across the world. To some extent, China has contributed a lot to the worldwide recovery of economic activity. Needless to say, China will continue to play a significant role in promoting diversification of global economy.

As is known, on the other hand, the intellectual property protection system is an indicator of a nation's economy. It is therefore imperative to build a comprehensive and adequate intellectual property infrastructure. Until very recently, the IP implementation and enforcement in China has just received remarkable affect. But China has expressed its support for improving the technical cooperation and capacity building activities of the WIPO in much the same way as the U.S., UK and other countries had commented. From its total number of its worldwide patent application filings, China has made efforts catching up with the Western world.

However, developments in IP law in China continue to be mediated by non-IP factors, and infringement of foreign existing intellectual property has not substantially decreased. Scholars in

have commented that China has manoeuvred its currency in order to keep benefiting from the trade surplus. There is a proposition in opposition to this viewpoint, that the strictness on the Chinese exports into the U.S. marketplace essentially reflects the policy concerns, to reduce the privilege that China has gained by the lower price of the commodities. Regardless of the contradictory opinions, public education, whether by government departments, the local IP offices or interest groups, is important to strengthen China's intellectual property enforcement regime. Only through an efficient and workable IP law regime, the "innovation nation" goal could be met. An IP law enforcement compatible with the Western world would also promote the global economic growth and stability. To understand the relationship between Chinese IP law and its impact on the international trade, one should also keep abreast with China's actions and policies on U.S. sales, since economy, trade, and innovation is in an organic mechanism which is inseparable.