

The Extraterritorial Application of Chinese Trade Secret Criminal Law: With the Analysis of the Economic Espionage Act of the US

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Abstract. Intellectual property, especially trade secret, is very important to countries nowadays. China's relatively slow development of trade secrets protection under criminal law system failed to give extraterritorial effects to its rules and little research has paid attention to this important issue. Therefore, with two approaches implemented, comparative research and case study, this article aims to investigate the necessity for construction of extraterritorial application of Chinese trade secret criminal law and further provide suggestions through the analysis of The Economic Espionage Act of the US.

Keywords: The Economic Espionage Act, Trade Secrets, Extraterritoriality, Criminal Protection.

1. Introduction

Today, in an era of the knowledge economy, knowledge and technology have played an increasingly important role as the main drivers of economic growth in comparison to the past. Intellectual properties (IPs), which are closely associated with knowledge, give companies an edge to stay competitive and thriving by depending on legal enforcement protections of nations and thus promote the development of the economy [1-2]. IP crime, also known as an economic drug, could result in long-term and alarming harm and is one of the most serious of the seventeen types of transnational crimes listed by the United Nations [3]. Considering the huge benefit IP thieves may have, civil sanctions alone are far from adequate to deter the infringement of IP [4]. Therefore, countries nowadays tend to adopt both civil and criminal laws to obtain better IP protection [5].

Despite a relatively late start, China's rapid pace of IP legislation is unique in the history of IP, with a civil law system of IP protection including Patent Law, Copyright Law, Trademark Law, and a series of other laws established within nearly forty years [2]. IP protection under criminal law in China, however, has a relatively slow development than that in civil law. The 1979 Criminal Law provides for the prohibition of counterfeiting the registered trademark of another enterprise, initiating the IP criminal legislation. After a big revision in 1997, IP crimes are centrally regulated in section 7 of chapter 3, crimes of undermining the order of socialist market economy, with seven specific accusations. After several amendments to Criminal Law, some revisions are made to statutes in Section 7, but there are no significant changes to the specific accusations or the framework of the whole section, which is seen as a lag of IP criminal legislation and leads to problems in practice [6].

In this case, numerous studies have been carried out to identify potential problems in the criminal protections of IP in China and thus provide suggestions for solutions. The issue of whether penalties are too harsh in China's IP criminal legislation has long been a controversial and much disputed subject within this field. Following the revision of Criminal Law in 1997, Tian stated in 2003 that the severe penalties in Chinese criminal law for IP crimes contradicted the world trend of criminal law development. As he indicated, people who commit IP crimes in China could be sentenced to three to seven years of imprisonment, with no upper limit on the fine which may be imposed, in contrast to the maximum three years of imprisonment and the maximum fine of 15,000 francs in France [2]. In the absence of amendments to the relevant legislation, however, more scholars have put forward an opposite view. Both Hu and Jiang compared the relevant provisions in China and the United States (the US) in their paper and thus concluded that the penalties for IP crimes in China are too lenient [5-6]. Hu further carried out a comparison between penalties for theft with those for IP crimes to support

his view [6]. One possible explanation for this controversy is that the ratio of IP infringement has increased and infringement behaviors are more diverse as the economy and technology, especially the Internet, of China have grown rapidly [7-9]. The unamended statutes may be limited in responding to the new circumstances of judicial practice and a call for harsher penalties is therefore raised. Furthermore, studies over the past two decades have pointed to the overly general nature of IP accusations under China's criminal law and the lack of clear criteria for conviction [2,9].

Nowadays, faced with a greater risk of infringement of trade secrets, countries such as the US have given extraterritorial effects to trade secret criminal law for better protection and The Economic Espionage Act (EEA) published by the US is an example. China, the second largest economy in the world, is also experiencing such a challenge but its criminal law is unclear as to the rules governing the extraterritorial effects of trade secret law [10]. However, far too little attention has been paid to this area. This paper attempts to show the necessity of establishing an extraterritoriality regime for Chinese trade secret criminal law, and further provides suggestions through an analysis of the EEA of the US.

2. The Economic Espionage Act (EEA) of 1996

2.1. Background

In the 1990s, the Federal Bureau of Investigation of the US uncovered substantial evidence of the existence of targeting trade secrets through economic espionage and that most of this economic espionage was planned or conducted by foreign governments [1]. In response to the increasing misappropriation of trade secrets conducted by foreign governments, organizations, and their agents, Congress enacted the Economic Espionage Act (EEA) in October 1996 [4,11]. It is a meaningful attempt in the area of trade secret protection, given that there was no federal civil or criminal law specifically addressing the misappropriation of trade secrets by private actors in the US prior to the enactment of the EEA [12]. As a Federal State, the US has a rather complex legislative system for trade secrets protection. According to the Uniform Trade Secrets Act (UTSA), a model trade secrets law exists at the federal level and states rely primarily on their codified trade secrets laws established by reference to the UTSA or on their common law to provide sanctions for trade secret infringements [13]. With the enactment of the EEA, the US now has uniform legislation at the federal level regarding criminal penalties for trade secret infringements, and thus became the first country to enact a separate criminal code for trade secrets with clearly stated extraterritorial effects [13].

2.2. The extraterritoriality of the EEA

Section 1837 of the EEA provides for the applicability to conduct abroad which makes extraterritoriality one of the novel features of the EEA [4,14]. Under this Section, trade secret theft or economic espionage occurring overseas would be illegal if: (a) committed by a US national or permanent resident or an organization organized under federal, state, or territorial law; or (b) "an act in furtherance of the offense was committed in the United States" [1,15]. Therefore, the EEA is distinguished from patent and copyright laws as it is recognized that those other forms of IP protection are more territorially limited [14]. In addition, two other features of the EEA, which will be discussed next, have actually facilitated its extraterritorial effect.

As for the first feature, the EEA distinguished the crimes of infringing trades secrets into "economic espionage" and "theft of trade secrets" for the first time in the world, which is innovative in terms of legislative provisions and contents [15]. To prohibit the misappropriation of trade secrets, this classification of accusations was created based on the identity of the defendant, with one being private parties and the other being foreign governments or parties directly affiliated with foreign governments [14]. "Economic espionage" under Section 1831 provides criminal penalties for misappropriation of trade secrets when a foreign government or entity associated with it benefits [11]. Considering the elements of this offense, the US government has to prove the knowledge of the defendant that the information in his possession is a trade secret. However, there is no need to

demonstrate an actual benefit was received by the defendant from the trade secret and proof that misappropriation is intended to benefit the defendant, which in this case is a foreign government or an affiliated entity, is conclusive enough [4]. With such a legislative design, the cost of proof for the US government is therefore mitigated, which fits well with the extraterritoriality provision under Section 1837.

In addition, the EEA has a rather broad definition of trade secrets, providing protection for “all forms and types of financial, business, scientific, technical, economic, or engineering information... whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically or in writing....” [15-16]. The definition of trade secrets under the EEA differs greatly from that in the traditional common law and state statutory definitions [14]. Such a broad, albeit not unlimited, definition of trade secrets makes it easier for the US government to recognize a so-called trade secret in the extraterritorial application of the EEA.

2.3. The analysis of the EEA

2.3.1. A breakthrough of the Presumption against Extraterritoriality

Extraterritorial law is a law designed to regulate or punish conduct that occurs outside a state, which is usually conceived as referring to those situations in which the legislator authorizes the court to exercise jurisdiction, rather than on a territorial basis [17]. In the US, the possibility of extraterritorial application is not explicitly addressed in most statutes and it is generally presumed that statutes operate within the territorial limit unless Congress expressly provides otherwise [14]. To be more specific, extraterritoriality could not mix with criminal law by tradition, since criminal jurisdiction is territorially limited [17]. Moreover, the principle of the Presumption against Extraterritoriality was established by the US Supreme Court as early as 1818 through *United States v. Palmer*, which is exactly a criminal case [13]. On the other hand, this principle has been observed in the field of IP law. The US Supreme Court has long upheld that patent rights are strictly territorial in nature and trade secrets are similarly subject to territoriality, which means that the principle above is equally applicable to the extraterritorial application of trade secret law [13]. In this case, the enactment of the EEA could be seen as a great breakthrough for the Presumption against Extraterritoriality in both criminal and IP law. A question is therefore raised: what is the legislative basis for the huge leap forward of the EEA?

Sadly, it seems that the legislator of the EEA did not provide an academically satisfying answer. The reason for this is that the EEA emerged not from the academic IP community but from a group of business and law enforcement interests who saw trade secret misappropriation as a growing national problem [16]. In fact, the IP community in the US was absent when the EEA was enacted and lawmakers viewed trade secret theft as more than a simple violation of IP or anti-competitive behavior [13]. Rather, it was seen as a product of the post-Cold War era [14]. Such a disconnect with the academy may be one explanation for the overly broad definition of trade secrets and the breakthrough of extraterritoriality in the EEA. On the other hand, the long-arm jurisdiction regime in the US litigation law may provide a basis for the extraterritorial application of the EEA, given the expanding scope of long-arm jurisdiction by US courts.

2.3.2. Disputes in theory and practice

As mentioned above, the EEA has been questioned and criticized since its enactment due to the lack of some legislative basis. Some scholars have argued that the EEA is inherently flawed because it is traditional legislation, yet used to combat economic espionage in an age of no state borders [18]. Others are concerned that improper implementation of the EEA may impede innovation, stating that the expansive interpretation and application will reduce the flow of information in the public domain [19].

On the other hand, the extraterritorial application of the EEA is also not as effective as it is supposed to be. Firstly, the EEA is not widely utilized in the US despite increasing enforcement efforts in recent years. A study in 2012 showed that the federal government filed a total of 124

criminal cases under the EEA, averaging less than eight prosecutions per year [12]. The EEA is therefore concluded by some commentators as a disappointing failure to deter the theft of trade secrets [12]. In addition, the majority of the trade secret cases under the EEA involved defendants who are US citizens or permanent residents or involved conduct which occurs within US territory, with relatively very few cases involving foreign subjects. Besides, no case to date has addressed the question of how US courts could obtain jurisdiction if a foreign enterprise committed a relevant crime with no subsidiary in the US, or if a foreign national commits trade secret theft outside the US by the Internet [13].

In conclusion, despite the huge breakthrough in extraterritoriality, the EEA has some deficiencies in both theory and practical application. However, it should still be admitted that some of the EEA cases do serve the purpose of combating trade secret violations overseas, which will be discussed in the following section.

3. The construction of extraterritorial application of Chinese trade secret criminal law

In comparison to the EEA in the US, there is no provision in Chinese criminal law for extraterritorial application rules related to trade secret law, which may result in the inability to effectively protect trade secrets and a failure to counter extraterritorial application by other countries. Therefore, immediate action is needed and some legislative proposals are discussed as follows.

3.1. The need for extraterritorial application rules

3.1.1. Increasing threats toward trade secrets from abroad

Trade secrets, the main source of economic value and competitive advantage for enterprises, are also strong propulsion of economic growth for a state [1]. While internal trade secret theft is also an important issue, infringement from abroad is becoming a growing threat to a country's economic prosperity [20]. Rampant international espionage has caused multinational enterprises to lose billions of dollars in proprietary information each year [21]. With the increasing openness of China to the world, it is also facing the threat of economic espionage to economic security. In 2009, four employees of Rio Tinto Australia's Shanghai office, including Hu Shitai, were arrested by the Security Bureau for allegedly stealing Chinese state secrets. They were suspected of bribing Chinese steel companies to obtain trade secrets and disclose them to foreign iron suppliers, leading to the termination of iron negotiations in 2009 and an economic loss of nearly one billion RMB. Therefore, in order to obtain better protection for trade secrets from foreign infringements, there is an urge to give extraterritorial effects to trade secret criminal law.

3.1.2. Inadequate protection for trade secrets in criminal law

The rules establishing the extraterritorial effects of trade secret criminal law are the basis for its ability to be applied extraterritorially [13]. For foreigners who commit crimes outside the territory of China, Article 8 of the Criminal Law of China follows the principle of limited Protective Jurisdiction, setting 3 requirements for application: (a) the crime committed must violate the legal interests of China or its citizens; (b) is punishable by a minimum sentence of 3 years in the Criminal Law and (c) is punishable by criminal penalties in accordance with the laws of the place where the crime was committed. In this case, if a foreign subject committed theft of trade secrets against Chinese enterprises and the law where the crime does not provide criminal penalties, there will be no criminal penalties in China either, which is detrimental to the protection of trade secrets from foreign infringements. As a result, legislative action to give extraterritorial effect to trade secret criminal law should be promptly put on the agenda.

3.1.3. Response to extraterritorial application by other countries

As mentioned above, the EEA of the US was first established to combat economic espionage conducted by foreign governments and one conclusion could be drawn from its subsequent judicial

practice that subjects from China or ethnic Chinese people have become major targets for its extraterritorial application. A study stated that 17% of defendants prosecuted under the EEA were of Chinese descent from 1997 to 2009 and that percentage tripled to 52% after 2009 [22]. Between 2001 and 2018, 90% of economic espionage cases brought by the US Department of Justice involved China, and two-thirds of criminal trade secret theft cases engaged China [13]. Cases such as *United States v. Sinovel Wind Group Co.* in 2015 and *United States v. Zhang* in 2018 have attached great attention throughout the world. However, there is a growing concern that Chinese espionage is being distorted into an irrational “Red Scare” [22]. The increase in prosecutions of Chinese defendants may reflect just a perception, instead of an actual increase in Chinese espionage. Furthermore, Chinese and other Asian Americans are disproportionately charged, receive much longer sentences, and are more likely to be innocent than defendants of other races under EEA, according to a study [22]. In this case, the EEA, which has extraterritorial effects, could become a tool for discriminatory crackdowns on Chinese high-tech companies. Without clear rules of the extraterritorial application under trade secrets criminal law, China is unable to respond to such a risk and legislative action is therefore in need.

3.2. Suggestions for the Construction of Extraterritorial Application

3.2.1. Setting legal rules for the extraterritorial application of trade secret criminal law

As noted above, the limited Protective Jurisdiction provisions of Article 8 of the Criminal Law fail to cover crimes that occur in some specific locations. As a result, to effectively combat the infringement of trade secrets occurring abroad, it is possible to draw on the provisions of the EEA and create a new connecting point for Article 8 through legislation or judicial interpretation. For example, the infringements of trade secrets overseas are illegal if the actions which facilitate such infringements occurred within the territory of China. Besides, Article 219 (1) provides for the crime of economic espionage, of which the extraterritorial application should also be taken into account.

In addition to legislating the extraterritoriality for legal rules, it is of vital importance to pose proper limits to its effectiveness and usage. In the case of the EEA, with Section 1831 intentionally targeted at foreign economic espionage, its legislators were undoubtedly aware of the political and dangerous implications of this particular type of crime and thus the executive branch will properly restrict its application [21].

3.2.2. Setting legal rules to counter foreign extraterritorial application

As mentioned above, the expansive application of the EEA’s extraterritorial effects is posing threat to the development of technology in China and China here is not the only victim. Other countries or regions such as the United Kingdom, Canada, and the European Union criticize and challenge the extraterritorial application of the US domestic law, and further counter it by enacting legislation for blocking purposes [13]. The British Protection of Trading Interests Act, the Foreign Proceedings (Excess of Jurisdiction) Act of Australia, and the Foreign Extraterritorial Measures Act of Canada are typical examples of extraterritorial blocking legislation. The blocking legislation, in general, can provide domestic parties in foreign litigation with the following remedies: injunctions against providing evidence or information to a foreign court, injunctions against enforcing a judgment for a foreign court, and compensation for domestic companies subject to foreign sanctions [23]. As for China, the Rules on Counteracting Unjustified Extra-territorial Application of Foreign Legislation and Other Measure, which comes into force in January 2021, serves a similar function. However, such rules failed to provide for counteracting the expansive application of the EEA, since they mainly focus on economic sanctions and protection of business interests in international trade [13]. Therefore, corresponding countermeasures should be formulated against the abuse of jurisdiction of the EEA, and conceptions and rules in blocking legislation could be absorbed.

3.2.3. Establishing safeguards for the extraterritorial application of regulations

The outcome of the extraterritorial application of trade secret law depends on effective safeguards. In comparison to that in civil law, extraterritorial application of rules under the criminal law system

requires a more elaborate regulation of the procedure for recognition and enforcement of transnational judgments. Considering the foreign infringement of trade secrets, if the perpetrator is located in China, he or she can be prosecuted, and if the perpetrator is located in a country with which China has concluded an extradition treaty, jurisdiction can be exercised by filing an extradition request. However, if the perpetrator is located in a country where no extradition treaty is concluded with China, jurisdiction can be exercised through bilateral judicial assistance in criminal and civil matters or transfer [13]. In this case, China should also take efforts to achieve the greatest coordination within the government institutions, since a large foreign-related trade secret infringement case may require cooperation between the judiciary and the Ministry of Foreign Affairs, the State Council, and the border management departments of the Ministry of Public Security.

4. Conclusions

Considering the great importance this era has attached to IP, especially to trade secrets, countries are committed to giving extraterritorial effects to trade secret criminal law to better combat the infringements from abroad. As for China, the relatively slow development in IP protection under the criminal law system has resulted in a gap that still exists in this area, which may be detrimental to the protection of trade secrets. This article first analyzes the EEA in the US, which has extraterritorial effects, pointing out that it represents a great breakthrough against the Presumption of Extraterritoriality and its weaknesses. It then highlights the need for construction of the extraterritorial application of Chinese trade secret criminal law, as China faces a growing threat of foreign infringements and extraterritorial application by other countries and requires better protection of trade secrets. Therefore, China should set legal rules for the extraterritorial application of trade secret criminal law and to counter the effect of foreign extraterritorial application, and improve the corresponding safeguards so as to better protect trade secrets against infringement from abroad.

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