

CRAIN'S

CHICAGO BUSINESS®

CHICAGOBUSINESS.COM | AUGUST 22, 2011

China is 'worth it' despite the risks

American companies are drawn to China because of the country's large and fast-growing economy, which is poised to surpass the U.S. economy as the world's largest in the next 20 years. But China's business culture can be difficult to navigate for Western companies because it doesn't include the same protections against stealing trade secrets or patent infringement as most Western economies. And while China's business culture is less prone to bribes and cronyism than it was a few years ago, copycats still pose a serious threat to U.S. businesses operating there. Thomas Ross, a partner at Chicago law firm Marshall Gerstein & Borun LLP, works with U.S. companies on protecting their intellectual property while operating in China.

CRAIN'S: How has the business culture in China evolved over the past decade or so?

THOMAS ROSS: In China, historically, there's been a pattern of copying and pirating (intellectual property) that has discouraged a lot of people from operating there. More recently, there's been a lot of pressure diplomatically on China to do something about preventing pirating, and the way you do that is by allowing people to protect their developments and good name through establishing trade secrets, patents, copyrights and trademarks. China joined the World Trade Organization (in 2001) and agreed to abide by its policies and started to develop a quasi-judicial system of enforcing patent rights. But it's been a slow, painful process, and a lot of people have been discouraged.

There's a lot of pressure on China to protect innovators' technology so that companies can feel comfortable going into China, which in turn lets China be part of the world economic community. In recent years, there have been more patent suits and even trade-secret suits involving foreign entities and Chinese entities. But often when it's been a foreign entity and a Chinese entity, you get this hue and cry of favoritism, that the system is skewed toward an outcome that favors the Chinese entity.

I think now we're seeing a trend away from that, but it's coming slowly. At least there are lawsuits and there's a court system and there's a procedure. But it happens rather quickly, and there's no discovery over there, which means that if you're accusing someone of infringement of a trade secret or patent, you have to come

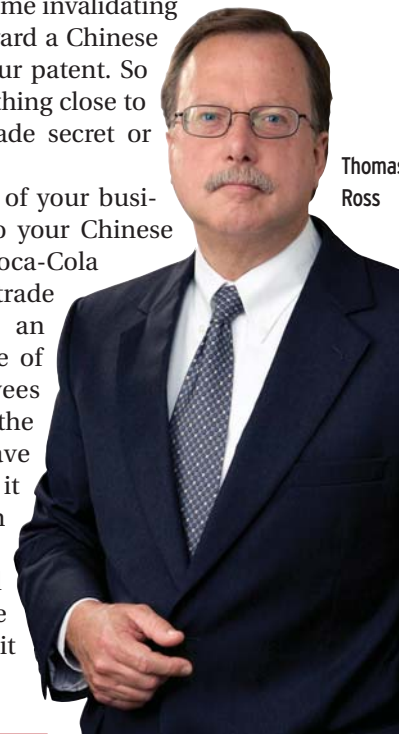
up with all the proof. If you ask the state agency to get involved and investigate, they may or may not. If they do investigate, and the Chinese entity chooses not to cooperate, there doesn't seem to be any penalty for them not cooperating. So there's been progress, but it's still an uphill battle skewed toward the home-grown citizenry.

Is doing business in China worth the risk? How can U.S. companies minimize that risk?

The market is worth it. There's a lot of opportunity there. Our advice is to find something you can hold back, something to keep in a lockbox to prevent copying. You have to hold something back, because (if your intellectual property is copied), you're likely to get a fight (with regulators), and right now it doesn't look like you'll be happy with the outcome if you're a foreign-based entity.

That could be a patent, although if you take a patent into court in China, they will spend lots of time invalidating it, and if there's favoritism toward a Chinese infringer, well, look out for your patent. So we recommend keeping something close to the vest, in the form of a trade secret or something of that sort.

Or it could be some aspect of your business that you don't divulge to your Chinese employees. The formula for Coca-Cola is one of the more famous trade secrets, so let's use that as an example. If you can have one of your own (trusted) employees working over there that has the secret information, then have that person keep it; don't pass it on to the plant manager over in China. Then, if there's ever a need for the formula, send your employee over to the plant to make the mixture. Do it in secret and then leave.



Thomas Ross

Marshall Gerstein & Borun LLP is exclusively focused on intellectual property law, and protects, enforces and transfers the intellectual property of its clients in more than 100 countries on six continents. The Firm delivers perspective and guidance where science, technology and law converge. Nearly half of the Firm's professionals have been in-house as general counsel, patent counsel, technology transfer managers, scientists, engineers and consultants, and offer depth of talent and seasoned experience in devising and executing intellectual property strategy and comprehensive IP solutions. The Firm represents Fortune 250 corporations, multinational businesses, start-up organizations and non-profits. Marshall Gerstein & Borun LLP is ranked as a top intellectual property law firm by *Chambers USA*, *U.S. News & World Report* and *Best Lawyers*, as well as *Corporate Counsel*, *Managing IP*, *Fortune*, *Intellectual Property Today* and *Intellectual Asset Management* magazines.

Reprinted with permission from *Crain's Chicago Business*. © 2011 Crain Communications Inc. All rights reserved. Further duplication without permission is prohibited. Visit www.chicagobusiness.com. #CB10-038

MARSHALL
GERSTEIN
BORUN LLP 

www.marshallip.com