

China Intellectual Property Challenges and Solutions: An Essential Business Guide

By Alan Adcock & Rebecca Ordish

John Wiley & Sons (Asia) Pte. Ltd., Singapore, 2008, ISBN-13 978-0-470-82275-3

Price \$49.95, pp. 320

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Journal of High Technology Law

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Some economists predict China's economy will soon be the world's largest.¹ The People's Republic of China (PRC) has a rapidly growing consumer market,² and research and development investment is expanding at a rapid pace.³ This substantial economic growth has created a hot spot in which investors foreign to China are eager to place their money. However, in their zeal to reap the rewards of such a grand new marketplace some investors have overlooked the pitfalls which can accompany investment in China. One of the most prevalent areas of concern for foreign investors is IP protection and IP law.⁴ Horror stories of foreign investors losing technology rights to a domestic partner, multi-million dollar sponsorship agreements ending with a company's logo not on a soccer pitch, but on a bathroom stall door, and massive DVD piracy infringements are just some of the stories coming out of China regarding IP deals and the dangers involved.⁵ So how can an investor protect IP while capitalizing on the unique new business opportunities China offers?

Alan Adcock and Rebecca Ordish have attempted to offer solutions to the various IP obstacles in the Chinese market in their recent book *China Intellectual Property Challenges and Solutions: An Essential Business Guide*. Adcock and Ordish combine for over seventeen years of

¹ Jim Landers, *Hazy outlook: Burgeoning Power China Struggles to Deal with Its Explosive Economic Growth*, The Dallas Morning News, Aug. 3, 2008, Beijing 2008.

² Thai Press Reports, *China: China to Top Asian Consumer Markets in 2009*, Thai News Service, Sept. 15, 2008. If China's consumer growth continues at its current rate of around 10% per year, by 2020 China's consumer market will exceed 4.38 trillion U.S. Dollars. *Id.*

³ Tech Europe, *Research and Development: EU Lagging Behind on R&D Investment as China Rushes On*, *Europolitics*, Jul. 4, 2007. China is scheduled to outpace EU investment in R&D by 2009. *Id.*

⁴ See Danny Friedmann, *How To Prevent And Act Upon Intellectual Property Rights Infringements In China*, Mondaq, June 5, 2008.

⁵ Alan Adcock & Rebecca Ordish, *China Intellectual Property Challenges and Solutions: An Essential Business Guide*, John Wiley & Sons (Asia) Pte. Ltd. (2008). P. 3 & P. 81.

experience confronting intellectual property issues in Asia.⁶ Adcock has practiced intellectual property law for the past 10 years in China while also contributing to several journals including *China Business Review* and *Asialaw*.⁷ Currently, Adcock is Deputy Director of IP at Tilleke & Gibbins, Ltd., an independent Thai law firm.⁸ Ordish has over seven years of experience with IP in Asia during which she managed a regional licensing program for a multinational company.⁹ She now works as IP Counsel – Greater China for Diageo.¹⁰ In their book Adcock and Ordish address many facets of IP in China. They examine some of the challenges for IP in China, consider how to protect IP when entering the Chinese market, and discuss the future of intellectual property in the PRC.

Challenges and Solutions begins with a brief background of IP law in China dating as far back as the first imperial Chinese dynasty, the Qin dynasty. The authors connect this history with the current state of Chinese IP law; acknowledging that some of the stories of IP theft in China are true. However, Adcock and Ordish shy away from characterizing the most pertinent difficulties of IP in China as stemming from individual incidents of theft or any unwillingness by the PRC government to enforce IP rights (they even argue later that the Chinese government is very willing to help protect IP). Instead, the authors view any problems which companies face in China as stemming from first, an immature IP protection system and second, lack of due diligence by those very companies in preparing for the Chinese marketplace.¹¹ The authors focus on these themes, and spend much of the

⁶ Alan Adcock & Rebecca Ordish, *China Intellectual Property Challenges and Solutions: An Essential Business Guide*, John Wiley & Sons (Asia) Pte. Ltd. (2008). Bookflap.

⁷ Tilleke & Gibbins International, Ltd., Alan Adcock Biography (2008), http://www.tillekeandgibbins.com/attorneys/alan_adcock.htm.

⁸ *Id.*

⁹ Alan Adcock & Rebecca Ordish, *China Intellectual Property Challenges and Solutions: An Essential Business Guide*, John Wiley & Sons (Asia) Pte. Ltd. (2008). Bookflap.

¹⁰ *Id.*

¹¹ *Id.* at 8-9. China's modern IP system only began to take shape after 1980 when, upon joining the World Intellectual Property Organization (WIPO), China enacted trademark, patent and copyright laws over the succeeding decade. *Id.* In regard to businesses disregarding the dangers of the Chinese market, Adcock and Ordish suggest that businesses have a distorted notion that IP cannot be adequately protected in China so those organizations do not invest resources in protection. *Id.*

book dispelling the more traditional views of China's IP system by detailing the extent of China's protections and providing ideas on how to develop strategies that will guard IP in China.

Challenges and Solutions first helps to develop a business strategy by focusing on how to enter the China market along with factors that should be considered when taking this step. A company's plan depends largely on how it seeks to operate in China. Is the company looking to invest in a new Chinese business entity, looking to acquire Chinese IP, or hoping to offshore some aspects of production to China? Today there are two models for Foreign Invested Enterprises (FIEs) in China, the Joint Venture in which a domestic investor partners with a foreign investor, and the Wholly Owned Foreign Enterprise (WFOE). To utilize either of these formats Adcock and Ordish suggest developing a planning paper with accountants, lawyers and consultants to develop a plan for the business regarding everything from the company's name and location to important IP concerns such as employee theft and valuation of IP as capital.

As China becomes a more knowledge based economy, a greater number of IP developments are flowing from China and foreign investors seek to capitalize on the opportunities Chinese IP innovations provide. Adcock and Ordish argue that investors must go beyond ensuring that any IP a company seeks to acquire is in-line with their strategic plan; they must perform due diligence in researching that IP. Before any deal is finalized, a company/buyer should get written assurances not only from the selling company, but also from past employees of that company, that the seller owns the given IP and will not compete with a buyer by using that IP in the future.

When outsourcing various aspects of production or development to China the authors recommend that a company keep a close watch on its supply chain as this is where most IP leaks occur in the PRC. When production is outsourced to a Chinese company, the Chinese manufacturer can then outsource processes of that production to many other smaller manufacturers. Each link of this production chain offers another opportunity for an IP leak. Therefore, a company seeking to manufacture goods in China must become familiar with all the manufacturers which will be involved

in the process and create proper licensing agreements with all of these entities to prevent theft. Once established in China a company must make sure to register all possible trademarks, copyrights and patents, as these rights are much harder to enforce if they are not registered. Though these are good steps to take for a supply chain in any country – they are particularly necessary steps in China.

The third portion of *Challenges and Solutions* addresses the tools available to enforce IP rights in China. Adcock and Ordish cover everything from civil litigation and criminal prosecution to collaboration with the government, building up strong relationships with authorities and training employees, government workers and even the public to recognize IP infringements. The authors stress that collaboration with the government is very important and most government officials are very willing to enforce IP rights, they just require the proper training to do so. For this reason, companies should establish training for local officials (and national officials in some cases) on how to spot IP infringements particular to the goods created by those companies.

The final section of the book discusses the future of Chinese IP and ways for companies to lobby and develop relationships with government agencies. The authors note that research and development is growing at a rapid pace in China, but there are some drawbacks to foreign investment in these areas. As examples, the PRC government does not allow the export of some IP to keep the development of certain industries within the country and companies must sometimes pay a substantial amount to any inventor whose creation goes to market.

To address gaps in the law, Adcock and Ordish suggest several ways to lobby the government. Beyond becoming a member of any industry organization, a company can also go to a province's local Chamber of Commerce for their country. For example, a company or investors from the U.S. would go to the local office of the U.S.-China Business Council. These chambers often form close relationships with the government and hold great sway in developing the law.

Overall, this book is a wonderful tool for developing a business plan for China. Any reader must understand that *Challenges and Solutions* provides a very broad overview of IP hurdles in

China, and the book is not specific to any industry in particular. A consultant or lawyer should use this as a starting point in developing a strategy in China. The questions businesses should ask posed in the “Checkpoints” section at the end of each chapter could get any business plan started. Further, they offer a list of resources (most of which are available online) throughout the book for a company to continue researching its strategy.

Many of the solutions to tackling IP issues in China are only likely to be available to companies with the time and resources to follow through. A major theme of *Challenges and Solutions* is that companies keep someone “on the ground” in China to supervise their operations and nip any IP hurdles or infringements in the bud before they become larger issues. A smaller company would likely not have such resources to devote an individual or an office to overseeing their China plan. Indeed, a small manufacturer licensing IP to a Chinese factory may not be able to investigate the entire supply chain involved in creating a product. Therefore, many of the suggested steps to protect IP seem limited to larger companies that can afford a Chinese office or even just an individual employee for oversight.

This book is a valuable tool to any company developing an IP plan in China or even assessing a current plan. Adcock and Ordish ask the right questions and get plans started down the right path while pointing the reader towards the resources needed to continue strategic development. They offer keen insights into the unique Chinese market through their own experience and supplement those insights with case studies peppered throughout the book. *Challenges and Solutions* allows any IP strategist to learn from the successes and failures of other companies in China, and for this reason it is a must have for those looking to do business in China today.