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Mauricio Gardenal, Tan Yueqi, Muge Onal Baser, Milly Hung, John Stone & Zunxia Li, Terence Hussein,Linh Thi Mai Nguyen, Chi Lan Dang, Hien Thi Thu Vu & Thanh Phuong Vu

CROSS- BORDER LEGAL COOPERATION

Featuring:

An Analysis of Legal Status of the Anonymous Foreign Shareholder in Foreign Invested Enterprises in China.

The Secret to Cross-Border Trade Secret Protection: How cross-border collaboration can enforce your cross-border trade secrets.

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Editor's Note

What does it mean for lawyers to collaborate internationally? In this issue of the SCLA Law Review, we present five different perspectives on this question. There are no simple answers – conditions vary greatly for lawyers around the world. Nevertheless, wise words on this subject should interest many people besides lawyers, since the size and extent of the cross-border legal industry may, to some extent, foreshadow what lies ahead for globalised trade, investment, or other relations. If international trade or investment increase or decrease, this might be preceded by increasing or decreasing workloads for cross-border lawyers.

Based on the contributions to this issue, what can be said about the much-heralded process of 'deglobalisation'? The Russian Federation's war against its sovereign neighbour, Ukraine, is the elephant in the room of these conversations. The 'deglobalisation' thesis is represented in this issue by Muge Onal Baser, who points to how the Russian Federation's long-running and unprovoked attack on Ukraine, has led to international law firms closing their offices in Moscow and St Petersburg. Could this be part of the transition to a world with fewer cross-border lawyers?

Suggestions that it is not are provided by several other contributors. In fact, argues Maurizio Gardenal, the Russo-Ukrainian war has been a reason for new international collaborations. Elsewhere, we see that there is still plenty of day-to-day work for lawyers engaged in trade between the USA and China, as in John Stone and Zunxia Li's discussion of cross-border trade secret enforcement in these countries, or in Tan Yueqi's analysis of laws regarding anonymous FDI shareholders in China.

Ultimately, it is worth remembering that the 'deglobalisation' that has followed Russia's horrific invasion of Ukraine since 2014 is not an inevitable process. The Russian government chose to attack their neighbour, thus bringing war upon themselves. But they could have chosen not to. It should encourage anyone hoping for peace in Europe that the Ukrainian armed forces have taken huge steps forward towards ending the war by forcing out Russia's invading troops, thus restoring Ukraine's sovereign borders as recognised by the United Nations. Will 'deglobalisation' continue once this is achieved? That remains an open question, but its answer can be influenced by SCLA members and their colleagues.

The work of SCLA members maintains an important potential for the sake of deciding the future of cross-border legal work, and thus, significant preconditions for trade, investment, and peaceful unity. Even as Russian warlords bomb civilians, many ordinary people around the globe are planning for the world that will follow a Ukrainian victory. This future could well see increases of cross-border trade, investment, and travel if this presents a path towards popular prosperity (an objective on both China's and the EU's political agendas).

As always, I want to sincerely thank all our contributors and the remarkable and forward-looking SCLA community and journal production team. Zhang Tianze deserves special recognition for his sterling work in uniting the wide-spanning and innovative SCLA network and provisioning its guiding light on our exciting journey into the future.

/ David Dahlborn

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LAW DURING WAR: CAN LEGAL SYSTEMS UNITE US?

BY MAURIZIO GARDENAL

In the middle of a war in Eastern Europe, western businesses are wondering how to cope with the new measures imposed by their governments regarding trade with Russia.

To cite just what this means it is enough to look at the slew of new trade restrictions provided by EU regulation n. 2022/428. Among other things it makes it "prohibited to sell, supply, transfer or export, directly or indirectly" a long list of iron and steel products that could be used for pipeline production or other heavy industry.

However, in the wake of this international economic scenario we are likely to see a split between two areas: those affected by these trade parameters, and those who are not.

The Shanghai Cooperation Organization (SCO) stands out as an example of the latter.

Established in 2001 as a means to ease the territorial disputes between its six founding countries - China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan.

You may not have heard of it, but this transcontinental Asian alliance has gradually gained more momentum. In 2017 it added India and Pakistan to its membership and intensified cooperation between its members on economic, energy, cultural, and security issues. At SCO's 2019 summit Pakistan's prime minister Imran Khan proposed it should "finalise arrangements for trade in local currencies" and "set up an SCO fund and SCO development bank to catalyse the trans-regional development agenda". This would be a move to decouple trans-Asian trade from dollar dependency.

For whilst relations between the EU and the Russian Federation have never been worse, the Chinese economy has been running business as usual. China's trade with SCO member States grew twenty-fold from 2001 to 2020.

In such a divided world, it would be good news to find out that there is actually something that brings us together.

Indeed, article 464 of China's new Civil Code which came into force on 1 January 2021 acknowledges the principle of contractual freedom between parties along the same lines as provided by both common law and civil law.

Accordingly, the parties are free to negotiate and regulate any aspect of their deals, such as the choice of the governing law (Chinese or foreign) as well as the authority overseeing possible disputes.

The parties have to commit to drafting and signing an appropriate agreement before engaging in business because if they do not, their deal will have no legal ground to stand on. But will this contractual freedom be able to coexist with a world where the conflicts seem to be more and more frequent?

Where does this leave us? War and political polarisation on the one hand, and legal globalisation on the other? How long can these trends coincide before they come into contradiction?

These will be questions that we will be forced to confront in the transnational legal community to understand if the law might really become a glue that helps to unite us.

Maurizio Gardenal is a regular contributor to the NATO Defence College Foundation as editor of the column "Lawfare" and a member of its scientific committee. He is also an editor of the column "Observatory on international law" at "Il Sole 24 ore" and a member of the ABA and of the International Law Committee.

THE ANALYSIS OF LEGAL STATUS OF THE ANONYMOUS FOREIGN SHAREHOLDER IN FOREIGN INVESTED ENTERPRISES IN CHINA

BY TAN YUEQI

Abstract:
This article points out that the anonymous shareholder in foreign invested enterprises in China should not be identified as foreign shareholder and that the substantive relationship between the anonymous shareholder and the nominal shareholder should be defined as a relationship between an obligee and an obligor. Furthermore, it argues that the judiciary should not change the administrative functions of administrative state bodies and that judgements rendered by the judiciary should consider how the relevant administrative bodies might feasibility recognise and enforce the law. This article suggests that a pre-establishment national treatment plus a negative list system should be implemented as a core system of foreign investment access in China and that the boundary between executive and judicial power should be clearly defined.

The Foreign Investment Law of the People's Republic of China (hereafter referred to as the Foreign Investment Law) was promulgated on 15 March 2019. It came into effect on 1 January 2020, together with the Regulation for Implementing the Foreign Investment Law of the People's Republic of China (hereinafter referred to as Regulation for Implementing Foreign Investment Law). Pursuant to its legal regime, China uses a 'national treatment and negative list system' in industries that involve enterprises receiving foreign investments. To regulate foreign investments, the relevant laws and regulations have been frequently amended and modified. Nevertheless, many issues relating to anonymous shareholders remain.

Many foreign investors make anonymous investments because it is more convenient to them. The legal issues regarding such anonymous investments are only addressed lightly by the Law of the PRC on Chinese-foreign Equity Joint Ventures, the Law of the PRC on Chinese-foreign Contractual Joint Ventures, the Law of the PRC on Foreign Capital Enterprises (hereinafter referred to as the Original Three Laws on Foreign Investment), and by the Company Law of the PRC (hereinafter referred to as the Company Law) and so on. This means that the related legal issues are very controversial in both academia and judicial practices. There remains many uncertainties regarding the ascertainment of the identity of anonymous foreign shareholders, as limitations on foreign investment are further lifted and supportive policies are granted.

Definition of anonymous shareholders

Under chapter one of the Company Law, Companies should be equipped with a register which states the names and addresses of their shareholders, the shareholders' capital contributions, a verification of their contribution certificates and so on. Companies should also register this information with the competent authority.[1] In reality, however, anonymous shareholders are a fact in many businesses.

Anonymous investment refers to a legal situation where a beneficiary investor contributes capital to a business, yet the company's articles of association, register of shareholders, and registration record do not display their name, but that of a nominee shareholder. Prior to this an investment agreement is always concluded between the anonymous beneficiary shareholder and the nominee shareholder who, although a proxy, is designated as the entrusted shareholder in judicial practices.

As far as the legal effects of such entrusted shareholding are concerned they are usually declared valid under the Judicial Interpretation of the Company Law Number Three by the Supreme

[1]The register can manifest itself in different forms, including but not limited to articles of association, business licence, register of shareholder and so on, which applies to limited liability companies and joint stock limited companies. See Chapter one of the Company Law of PRC.

Court of the People's Republic of China (hereinafter referred to as the 'Judicial Interpretation of the Company Law Number Three'). This protects the lawful rights and interests of the actual beneficiary investor.

The identification of an anonymous shareholder should be based on principles and standards that differentiate between the insider and the outsider, which include the following provisions: (1) Regarding the internal relationship between the anonymous shareholder and the nominee shareholder, where the shareholding entrustment cannot be declared invalid, the anonymous shareholder may make claims against the nominee shareholder according to the shareholding entrustment. Thus the rights and interests of the anonymous shareholder are treated as those of the primary obligee. (2) Where the anonymous shareholder requires its status to be disclosed, the shares should be transferred pursuant to Article 71 of the Company Law as follows: (a) There is evidence of contribution of investment; (b) Consent can be obtained from more than half of the total number of the shareholders.

Such intricate legal relationships characterise the bonds between anonymous beneficial shareholders, their nominee shareholder, and third parties with regards to foreign-funded companies. However, in comparison with enterprises with domestic funding, the identification of anonymous foreign shareholders is even more complicated and involves foreign investment access, foreign exchange control and so on, which significantly increase the risks of disputes.

The foreign exchange management regime

Broadly, foreign exchange management means the currency and finance authorities or other organs authorised by a government to manage and impose control over revenue and spending, trading, lending, transfers, international settlements, rates, and markets related to foreign-currency exchange. More specifically, it refers to some restrictions placed on the exchange of domestic and foreign currency, which embody an international trade policy. The latter frequently includes the restrictions imposed on international clearing and foreign exchange trading.[2]

There are three kinds of foreign exchange management. Firstly there are strict foreign exchange controls, which means controls on both current and capital accounts. Such measure are often adopted by economically underdeveloped countries, where foreign exchange funds are in short supply and market mechanisms are unreliable, as they allow governments try to maintain the stability of their foreign currency exchange prices, safeguard the balance of the international payments, and protect the development of their national economy through centralised distribution and utilisation. Secondly, there are partial foreign exchange controls, which in principle, does not place any restriction on current-account foreign exchange trading, but limits foreign exchange trading in the capital account to a certain extent. Thirdly, there are completely free foreign exchange controls, which place no restriction on foreign exchange trading on neither current nor capital accounts. In these countries following such regulations foreign currencies can cross international borders and be converted and circulated freely.[3]

China has seen foreign investments increase on a daily basis. Meanwhile, foreign exchange controls have been adopted for the following significant purposes: (1) to stabilise foreign exchange rates and reduce the foreign exchange risks in foreign economic activities; (2) to prevent speculative capital flows, maintain the stability of the domestic foreign exchange market and protect the safety of the national economy and finance; (3) to increase foreign currency reserve assets, utilise foreign capital effectively, and promote the development of key industries, and so on.[4] China therefore uses partial foreign exchange controls, which manifests themselves in two aspects: on the one hand, restrictions are lifted on non-residents' foreign current-account exchange payments. On the other hand, comparatively

[2] See the Management Regulation on Foreign Exchange of the People' Republic of China (amended 2008).

[3] Yan Xin, 'The impact of the IMF Agreement on the Legislation of Foreign Exchange Control and the Study on China's Countermeasure' (2005), Journal of Dalian Maritime University, 26.

[4] Lu Qin,'Deepening Reform and Opening up on the Administration of Foreign Exchange and Serving the New Development Paradigm'(2021) 3 Hebei Finance 4.

strict limitations are placed upon capital accounts. Since China's economic reform and opening to the outside world in the 1980s and 1990s, these foreign exchange controls have undergone a transformation from strict restrictions to gradual liberalisation.Foreign exchange controls on capital accounts have been prudent and stricter than on current accounts, administrative examination and approval being its main means. Additionally, some access restrictions on foreign investment remain in the current legislation and are one reason why foreign investors choose to invest in the name of anonymous proxies.

An analysis of aspects of foreign investment access

Foreign investment access relates to whether or not foreign investments are allowed to enter a country and the extent of freedom relating to its entry. This often symbolises the extent of a state's openness to the outside world. Laws and administrative measures on foreign investment are implemented by the PRC's government bearing in mind the international economic environment: from strict restrictions on foreign investment, to the amendment of rules in conflict with relevant international rules and the promulgation of the Foreign Investment Law.

Before the Foreign Investment Law took effect, the early pattern of foreign investment access was a strict system of registration and approval for establishment. Although the restrictions on national market access have gradually been removed, the procedures for registration and approval were complex and time-consuming. Foreign investment projects had to be submitted to the development and reform department and foreign economics and trade department at the Ministry of Commerce for approval and record-filing according to the characteristics of the projects.[5] Contracts and articles of association should be approved and kept on record by the foreign economics and trade department. In respect to a restricted foreign investment project with total investment below the limits set by the National Development and Reform Commission and the Ministry of Commerce's 'Catalogue of Industries for Guiding Foreign Investment (2004)'.[6] the corresponding competent government authority of the relevant province, autonomous region, direct-administered municipality, or specially designated city in a state plan should examine and approve it, and report to its competent authority and industry authority at the next administrative level for record-filing. This examination and approval authority for such projects were not to be transferred to a lower administrative level. Foreign investment projects in the gradually opening-up areas in the service trade sector were examined and approved pursuant to the state's relevant provisions.

On 8 October 2016, the Interim Measures for the Administration of Establishment and Modification Registration of Foreign Invested Enterprises were promulgated by the Ministry of Commerce. Under this regulation matters that did not fall within the scope of the special administrative measures for permits became subject to a system of record-filing, rather than the system of examination and approval. Since then the supervision on the aforementioned matters has changed from prior supervision to intermediate and post-supervisions

Since the promulgation of the Foreign Investment Law and Regulation for Implementing Foreign Investment Law, the current regime of foreign investment administration has been restructured, and has adopted the 'pre-establishment national treatment and negative list system'. Pursuant to Article 37 of Regulation for Implementing Foreign Investment Law, 'the registration of foreign invested enterprises shall be subject to the Market Supervision and Administration Department of the State Council and the authorized market supervision and the authorized market supervision and administration department of local people's government and be handled in accordance with the law.' Article 34 reads: 'During the process of performing its functions in accordance with the law, the relevant authority shall not grant

[5]The Ministry of Commerce of the PRC was founded in 2003, and incorporated the functions of the Ministry of Foreign Economics and Trade and those of other government agencies. See website: http://rss.mofcom.gov.cn/aarticle/Nocategory/200502/20050200017543.html.

[6] According to the 'Catalogue of Industries for Guiding Foreign Investment (2004)', projects in the categories of encouragement and permission at the total investment amount of USD $100 million or above and project in the categories of restraint at the total investment amount of USD $50 million or above shall be subject to the approval of the National Development and Reform Commission; project in the categories of encouragement and permission at the total investment amount below USD $100 million and projects in the categories of restraint at the total investment amount below USD $50 million shall be subject to the approval of the local development and reform departments, of which projects in the categories of restraint shall be approved by the provincial development and reform departments. Such authority of approval shall not be delegated to the lower level.

permission and registration if the foreign investor plans to invest into the industry that falls within the scope of the negative list but does not comply with the regulation concerning the negative list. system'. Pursuant to Article 37 of Regulation for Implementing Foreign Investment Law, 'the registration of foreign invested enterprises shall be subject to the Market Supervision and Administration Department of the State Council and the authorized market supervision and administration department of local people's government and be handled in accordance with the law.' Article 34 reads: 'During the process of performing its functions in accordance with the law, the relevant authority shall not grant permission and registration if the foreign investor plans to invest into the industry that falls within the scope of the negative list but does not comply with the regulation concerning the negative list.' Furthermore, Article 28 provides that 'The foreign investor shall not make investments in a prohibited industry of investment that is provided in the negative list. Where foreign investors make an investment in the restricted industry of investment that is provided in the negative list, the investment should comply with the conditions provided in the negative list. The industry outside of the negative list should be administered in accordance with the principle of the consistency between the domestic investment and the foreign investment.' Adding to this is Article 29, according to which: In case of the handling of the approval and record-filing of the investment projects, the relevant regulations should be abided by.' Relevant provisions are made regarding the categories of restricted and prohibited industries in the 'Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Version)'. On 28 December 2020 the 'Catalogue of Industries of Encouraging Foreign Investment (2020 Version)' was released publicly, further expanding the scope for encouraging foreign investment. It especially plays a positive role in producer services and manufacturing.[7]

While the Original Three Laws on Foreign Investment still applied, the prerequisites for establishment and registration were a business licence, approval certificate and filing receipt.[8] However, since the promulgation of the Foreign Investment Law and the Regulation for Implementing Foreign Investment Law, the foreign investment administrative system has changed from a case-by-case approval to a system of a negative list and record-filing. Both domestic and foreign invested enterprises should file their registration information with the market supervision and administration department, which dramatically simplifies their establishment and modification procedures. On the one hand, based on the negative list, the National Development and Reform Commission exercises a project management function, which is to grant approval or record-filing to the foreign invested projects. On the other hand, the Commerce Department is to grant record filing for the establishment and modification of foreign invested industries outside of the scope of negative list, and grant case-by-case approvals for establishing and modifying foreign invested industries that fall within the restricted access. Based on the requirement of industry access, industry-competent authorities should examine and approve the qualifications of the relevant foreign invested enterprises and determine whether an industry licence should be issued or not. Responsibility for handling the establishment, modification, and cancellation of foreign invested enterprises lies with the State Administration for Market Regulation.[9]

Based on the aforementioned systems of national foreign exchange management and foreign capital access, it is significant that:

(1) An important reason why foreign investors make anonymous investments is to circumvent restriction measures on the foreign capital access. At present, these restricted measures still exist in

[7] See 'Catalogue of Industries of Encouraging Foreign Investment (2020 Version)'.

[8] See Liu Dongmei,'The Analysis of the Management of the Foreign Exchange in Foreign Invested Enterprises under the System of Pre-establishment National Treatment plus Negative List' (2021), 5 The International Business Forum 36.

[9] See Regulation for Implementing Foreign Investment Law.

all kinds of complicated administrative provisions, including the administrative regulations-formulated by the State Council, such as the Administrative Regulation on the Foreign Invested Bank, and departmental regulation issued by industry competent departments, such as the Departmental Regulation on the Foreign Invested Telecom Enterprise. The thresholds, including the investment cap, registered capital and qualifications of shareholders, are in urgent need of a clean-up, and their actual implementation remains unknown.

(2) Some foreign investors are unwilling to disclose their relevant information arising out of the concern of possible unfair treatment on the foreign invested enterprises due to their biassed understanding of China's systems and policies. Some therefore choose anonymous investment for the sake of personal and business information confidentiality.

The tackling of anonymous investment disputes in practice

In practice, anonymous foreign investors make investments using two kinds of 'investment agreements'. The first is to circumvent the supervision of laws and regulations and conclude the agreement of shareholding entrustment with the nominal shareholders, because the industry involved is the restricted or prohibited industry. A second type is used for industries outside the scope of the negative policy to make anonymous investment out of the concern of unfair treatment, personal information confidentiality, or for obtaining preferential industry policies and subsidies.

The foreign investors are often required to confirm their legal status as shareholders according to the required investment agreements if there are disputes between both parties, once the dispute has arisen. This has become an important question to be determined by courts. Article 1 of the Provisions on 'Several Issues Concerning the Trial of Dispute Cases Involving Foreign Invested Enterprises Number One' issued by the Supreme Court of People's Republic of China (hereinafter referred to as Provisions on the Trial of Foreign Invested Enterprises Number One), provides for the legal effects of such agreements. It reads:

During the process of the establishment and modification of the foreign invested enterprises, the contract takes effect from the date when it is ratified, where according to laws and administrative regulations the contract should be ratified by the relevant examination and approval authority; the people's court should determine that the contract does not come into effect without the ratification. Where the parties request the confirmation of invalidity of the contract, the people's court doesn't support it.

According to the aforementioned provision, where the contract (or the shareholding agreement) does not obtain the approval of the relevant authority, there is an intermediate state between the validity and invalidity of the contract. As the provision specifies, the contract does not come into effect, but the court will not confirm the invalidity of the contract.[10] This awkward state between validity and invalidity, makes the court fairly passive in cases concerning the identification of the legal status of anonymous shareholders in foreign invested enterprises. Generally speaking, beneficiary shareholders request that courts confirm their identities as shareholders and their percentage of the shares in case of disputes between them and the nominal shareholders.

In a situation where a contract is ratified by the relevant authority it can only be declared null and void on the legal grounds of the violation of mandatory laws or damaging the public interest, which is the handling principle for dealing with a contract's validity or invalidity (or the agreement of the shareholding entrustment). If the contract is not void, some of the parties' requests are supported by courts in practice.

On 14th May 2020, the First Shanghai Intermediate People's Court (hereinafter referred to as the Shanghai Court) announced a judgement in public concerning an appeal

[10] See Mao Haibo, 'The Commentary on the Difficult Legal Problems Arising out of Anonymous Foreign Investment' (2011), 3, The Study on Legal *System, 85. According to the aforementioned provision, where the contract (or the shareholding agreement) does not obtain the approval of the relevant authority, there is an intermediate state between the validity and invalidity of the contract. As the provision specifies, the contract does not come into effect, but the court will not confirm the invalidity of the contract.*

involving the identification of foreign shareholders, the case is as follows. In 2009, the plaintiff Carson and the third parties Chenx and Zhangx planned to start a business together. However, the plaintiff was not able to establish a joint venture with the third parties (who were Chinese citizens) according to the Original Three Laws on Foreign Investment. They decided to establish the Shanghai Junda Company (hereinafter referred to as Junda Company) that was the defendant established in the names of the two third parties. The plaintiff entered into a 'Shareholding Agreement' with the two third parties, providing that the actual contribution ratios were 51% of the plaintiff, 25% of Zhangx, 24% of Chenx, that is to say, the two third parties were holding the plaintiff's shares on entrustment. Thereafter, the plaintiff filed this case with the court involving a shareholding dispute arising between the plaintiff and Zhangx, in which the plaintiff requested the court to confirm the entitlement of 26% of shares entrusted.

One of the main focuses of this case was whether or not a domestic natural person can establish a joint venture with a foreigner. The Shanghai Court ruled in the second instance that the foreign natural person having foreign nationality should be confirmed as an anonymous shareholder and is entitled to recover its equity. It was noted that the newly promulgated Foreign Investment Law had removed the restrictions on cooperation between a Chinese national and a foreigner originally imposed by the Original Three Laws on Foreign Investment, so there is no legal barrier for the anonymous shareholder to be modified as the shareholder of a domestic company.[11]

The other focus was on whether or not there existed legal policy barriers for the company to go through the procedures of the modification of the company. The company would have had to go through the procedures to make modifications in the relevant administrative department, if the anonymous shareholder could obtain a judgement in its favour. That means the judgement should be recognized and enforced by the relevant administrative department.

In this case, the court of the first instance sent a letter to the Commercial Commission of Shanghai for advice as to whether or not consent could be obtained for the modification of the plaintiff as a shareholder and the modification of the defendant, that is Junda Company, as a Chinese-foreign Equity Joint Venture. The reply said that the business scope of the defendant did not fall within the area of the special administrative measures (the negative list) for foreign investment access, hence the plaintiff did not have to go through special examination and approval procedures in the case of the modification of shareholders of the defendant. [12]

In this case study, it can be seen that the plaintiff achieved its goal of starting a business by entrusting its shares to proxy shareholders, thus circumventing the restrictions placed by the Original Three Laws on Foreign Investment. Pursuant to Article 15 of Provisions on the Trial of Foreign Invested Enterprises Number One:

During the process of the establishment and modification of the invested enterprises, the contract takes effect from the date when it is ratified, where according to laws and administrative regulations the contract should be ratified by the relevant examination and approval authority; the people's court should determine that the contract does not come into effect without the ratification. Where the parties request the confirmation of invalidity of the contract, the people's court does not support it

Therefore, Article 15 of Provisions on the Trail of Foreign Invested Enterprises Number One will not necessarily result in the invalidation of entrusted shareholders that circumvent the examination and approval or the record-filing procedures. This makes such shareholding entrustment valid as long as no mandatory laws are breached and as long as the negative list regarding to foreign investment access is not circumvented.

Through this case, it can be seen that the approach of the Shanghai Court is to differentiate between enterprises falling within

[11] See (2020) Hu 01 Min Zhong 3024.

[12] See (2019) Hu 0115 Min Chu 6248.

the scope of the negative list and those outside of it. The prerequisite for confirming the identity of foreign shareholders falling inside the scope of the negative list according to the requirements of the Judicial Interpretation of the Company Law Number Three without the consent from the examination and approval authority. This must be considered a novel interpretation.

According to the judicial trial standards confirmed in the above case, Judge Huangxin published a paper entitled 'Judicial Review Standards on the Identification of Anonymous Foreign Shareholders' in issue 23 of People's Judicature, 2020. Judge Huangxin made the following new suggestions that: (1) the actual investor should make the investment in reality; (2) other shareholders admit the identity of shareholder of the the actual investor[13]; (3) before confirming the identity of a foreign shareholder that falls inside the scope of the negative list, the court or a party should obtain the consent from the examination and approval authority, but the court or the party does not need to obtain consent from the examination and approval authority if the enterprise falls outside of the negative list.[14] Point two here means that in the event of a limited liability company, if the anonymous shareholder (or the actual investor) and the nominal shareholder agree to identifying the anonymous shareholder as the real shareholder of the company, they should obtain the consent of other shareholders of the company because of the preemptive right owned by other shareholders.

The positive significance of these standards is undeniable. Nevertheless, in my opinion, it should be noted that, although shareholding entrustment may not be deemed invalid, the identity of anonymous foreign investors should not be confirmed by people's courts. The approach of confirming anonymous foreign investors' identities through judicial organs complies neither with the current foreign exchange control system nor the purposes for the establishment of foreign invested enterprises discussed above, irrespective of whether the enterprises fall within or beyond the scope of the negative list. The reasons for my above opinion are as follows:

Firstly, this approach will frustrate the increase of foreign exchange reserves. A country's foreign exchange reserves are one of the criteria that determine a country's comprehensive strength, and they play a vital role in adjusting balances of payment, guaranteeing external payments, and resisting financial risks. To encourage the establishment of foreign invested enterprises and lower entry thresholds for foreign capital investment increases foreign exchange reserves. If a court makes judgments to recognize the legal status of the actual foreign investors, which means some foreign investors may establish fake domestic invested enterprises by shareholding entrustment, it will frustrate foreign exchange supervision and an increase of foreign exchange reserves will be harder.

Secondly, it is hard to ascertain the source of capital for foreign invested enterprises. One of the purposes of imposing foreign exchange control is to safeguard the stability of the domestic financial market and to prevent large-scale speculative capital flows. If a court can bypass the administrative procedures to directly recognize the legal status of actual foreign investors, the foreign capital flows in the system of establishment of foreign invested enterprises cannot be supervised. The essence of foreign invested enterprises cannot be achieved without the supervision of the process of capital inflow from abroad. As mentioned above, the negative policy system imposes control over the industries for foreign investment access. The system of examination and approval under the Original Three Laws on Foreign Investment applies to all industries. On 3 September 2016, at the 22nd session the Standing Committee of the 12th National People's Congress deliberated on and adopted a change from the system of examination and approval to a system of record-filing. This change concerned the establishment and modification of the foreign invested enterprises that do not fall within the scope of special administrative measures on foreign investment access. . After the implementation of the Foreign Investment Law, an intermediate and post-supervision system was adopted for the sake of simplifying the establishment and modification

[13] See Article 71 of the Company Law of PRC.

[14] Huangxin, 'Judicial Review Standards on the Identification of Anonymous Foreign Shareholders' (2020) 23 People's Judicature 67.

procedures for foreign invested enterprises and optimising the investment environment However, the administrative mode of the negative list did not mean the removal of the foreign exchange controls. The core functions of the foreign invested enterprise system includes both foreign exchange controls and the examination and approval over some industries and the negative list system. In this case, the Shanghai Court took the place of an administrative organ in performing its functions of screening and supervising foreign capital access by passing a judicial judgement. It is generally believed that this approach will not be harmful, if the prohibited and restricted industries are not involved. That was the reason why Judge Huangxin supported the judgement of the Shanghai Court. However, this view ignores the most significant purpose of China's foreign investment system: attracting foreign investment. No matter how the court made its judgement, it could not change the basic fact that the anonymous shareholder had not invested foreign currency through the normal channels. which frustrated the purpose of introducing foreign currency capital through the foreign exchange system.

To sum up, recognising the validity of an entrusted shareholder through court will lead disguised overseas capital to circumvent China's foreign exchange control system. Therefore, given the foreign exchange controls and supervisions of the source of the capital, courts should not be allowed to make judgements to confirm the validity of shareholder entrustment. This should be left to administrative organs. Besides, this approach impedes the increase of foreign exchange reserves. If the shareholding entrustment is confirmed to be valid in court the problem is whether or not the foreign shareholder is able to use this with the market supervision and administration department to turn the original domestic enterprise into a foreign invested enterprise. Generally speaking, the judgement should not be enforced because it is not conducive to accumulation of foreign capital. The adverse consequences of affirming this in court are:

(1) Firstly, this approach provides foreign investors with a loophole to circumvent the Foreign Investment Law. The approach breaks through the law's systems of foreign investment access and business registration to directly confirm the legal status of the anonymous foreign investor in court. Paragraph 3 of Article 14 of the Provisions on the Trial of Foreign Invested Enterprises Number One stipulates that the prerequisite for confirming anonymous foreign investors and share proportions. It provides that 'the court or the parties have obtained the consent of the examination and approval organ in regard to the modification of the actual investor as shareholder during the litigation'. However, this stipulation is practically unenforceable, because the procedure for foreign investment in China is itself irreversible. That is to say, even after the confirmation of an anonymous foreign investor's legal status, and if the anonymous shareholder wants to become a nominal shareholder, there should be a shares transfer between the anonymous shareholder and the nominal shareholder. Since in most cases, the payment of the transfer price has already been conducted in RMB according to the shareholding entrustment agreement between both parties foreign capital would not enter China.

(2) Secondly, a conflict between justice and administration would arise. The establishment and modification of foreign invested enterprises is an administrative registration procedure. If courts confirm anonymous investors' legal statuses this will lead to a potential conflict

between judicial and administrative authorities. This is a basic fact that cannot be ignored. At present, the view of the State Administration for Market Regulation remains unknown, but in the long term it is detrimental to the establishment of a robust system of foreign invested enterprises. Attempts to confirm the legal status of anonymous investors in court may cause problems since administrative organs would be unable to enforce such judgement. The only criterion for administrative organs to identify whether an enterprise is a foreign invested enterprise is whether its investment capital enters from abroad or not. But for courts the shareholding entrustment question hinges on the free will of both company and investor. The problem would be that the courts' standards and the administrative criterion for foreign invested enterprises are inconsistent and cannot be reconciled judicially. Considering how part of the Provisions on the Trial of Foreign Invested Enterprises Number One is realised at the expense of executive power, it is debatable whether a judicial organ is authorised to modify the regulation of the administrative organ by issuing normative documents.[15]

Therefore, regarding disputes over anonymous foreign shareholding entrustment, I believe that the substantive relationship between both parties should be defined as a relationship between an obligee and obligor. That means the legal status of the anonymous shareholder and the nominal shareholder should be treated as the obligee and the obligor respectively. The anonymous shareholder is entitled to demand a refund of its actual contribution in the target company (such as Junda Company in this paper), the nominal shareholder is obliged to pay back the actual contribution from the anonymous shareholder.

Suggestions on the settlement of the dispute of the anonymous foreign shareholding entrustment

Despite the complexity of the concept of anonymous shareholders, the strictness of China's foreign exchange management system, and the limitations of the relevant laws and regulations currently in practical operation, there are legal loopholes in the field of foreign investment. This includes loopholes in the Original Three Laws on Foreign Investment and the Foreign Investment Law, which arise out of untimely amendments. Given new investment forms and the introduction of new capital, legal disputes in the foreign investment field are emerging one after another. The judicial department has to solve a variety of practical problems by means of judicial interpretation. The important position of administrative regulation has been determined by the characteristics of foreign investment throughout the whole legal regime. The judiciary certainly tends to give parties the right to relief by means of judicial interpretation. But if it thereby changes the administrative functions of the administrative organ, the latter's credibility is affected. If a court cannot obtain recognition and assistance from the relevant registration organs or competent departments in dealing with such cases its judgements are likely to become dead letters.

Thus, I believe that the court shall dismiss anonymous foreign shareholder disputes and instruct both parties to deal with their substantive relationship as obligees and the obligors. Meanwhile, the case handled by the

[15] Xu Kai, 'The Newest Development of China's Foreign Investment Regime and the Analysis of the Dilemma: the Commentary on the Provisions on the Trial of Foreign Invested Enterprises Number One issued by the Supreme Court', (2011) 2 Law Review in the West 105-106.

Shanghai Court highlights two urgent problems that need a solution:

(1) Firstly, we should speed up the clean-up of the original restrictive management measures, perfect the administrative regulations of the competent departments which are inconsistent with the Foreign Investment Law, and realise the equal treatment of foreign and domestic investments. We should implement a foreign investment access system with a pre-establishment national treatment plus a negative list system as its core and effectively eliminate the invisible threshold for foreign capital to enter China. As one of the fundamental principles relating to the treatment of foreigners, the principle of national treatment would mean that one state should treat the foreigners in the same way as it treats its nationals.

(2) Secondly, combined with the changes of China's foreign investment policy and courts' requirements for handling related disputes, the legislature should amend and improve the existing laws promptly, allocate judicial power rationally, and clearly define the boundary between executive and judicial power.

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DO POLITICAL DEVELOPMENTS THREATEN INTERNATIONAL LEGAL COLLABORATIONS?

BY MUGE ONAL BASER

As a lawyer who started her career in the Ankara office of a global law firm in the early 2000s, international collaborations have always been my norm.

Energy investments I worked on extensively required the application of laws from many different countries from a project's development stage to its completion and commercial life. This required knowing many legal systems simultaneously, particularly the law of the project country and different laws that would apply to financing agreements, EPC contracts, O&M contracts, and agreements between project partners.

To enter legally valid and binding contracts and avoid actions that violate any legal systems, reaching out to colleagues who will cooperate with you in each legal system is crucial. This has also become increasingly straightforward thanks to the rapid technological developments since the 1980s.

Nowadays, however, we are forced to confront the question of "is globalization at risk?". This, of course, poses the issue of whether international legal collaborations are also at risk. It is alarming that international collaborations may be under threat because it is impossible to succeed in some matters without colleagues in other jurisdictions. Take the following case as an example.

My frim recently represented clients in a shareholders' dispute between a Turkish company and two US companies, who were partners of a project. It started with an arbitration case in Switzerland. But lawsuits in New York, Amsterdam, and Moscow followed due to the contracts between the parties. We hired law firms in the relevant countries with expertise in such disputes and law firms in countries with laws that govern the disputed contracts. We stayed up day and night developing strategies with colleagues in six different legal systems and time zones and working word-for-word on each petition, declaration, or piece of evidence. Since each case involved matters that would affect the other, we prepared for all cases together as a big team. Although this practice required us to be accessible 24/7, e-mail and teleconference technologies allowed us to follow these cases together.

If there were a similar case or project today, we would not be able to conclude it with such optimal time and resource management. Current political developments in the world signal that there may be changes in the models of collaboration that we are accustomed to and take for granted.

In this context, it is a severe development that many international and respected law firms, such as Allen & Overy and Morgan Lewis, closed their offices in Russia due to Russia's full-scale invasion of Ukraine in the Russo-Ukrainian War. These law firms have been in Russia for almost thirty years. Even if their clients leave Russia, they will need legal support to wind up. The same is true for clients with pending cases and local clients. Although transferring projects, cases, or other matters to different colleagues is always possible, one should not forget that a client-lawyer relationship is like a patient-physician relationship; one does not prefer to end if they are content.

Nevertheless, although we face the adverse effects of a major land war in Europe, I do not think that international legal collaborations will end. I say this as a Eurasian lawyer who closely felt the effects of the Gulf wars, the Bosnia war, NATO's intervention in Libya , the Syrian civil war, and lastly, the current Russo-Ukrainian War, due to my geographical proximity to them. In the past, despite all the turmoil in the Middle East, I *could reach out to* a colleague in Iraq to consult on Iraqi law for a client's project. Even now, I am still able to reach out to colleagues in foreign countries. It is like keeping the friendship of Turkish people and Greek people separate and the international legal relations between the governments of the Republic of Türkiye and the Hellenic Republic. Lawyers in states that are in conflict with one another do not necessarily suddenly become hostile because of their governments' policies or actions.

Yet, given our changing world, we can expect a transformation in legal collaborations. In the past, when one required foreign legal advice, international law firms based in the US, UK, or Europe were the first ones that came to mind. Now, if working across international borders becomes harder, perhaps it will be to local law firms that clients will turn in their reluctance to hire an international firm that may suddenly leave the relevant market. Such transformation may even result in positive outcomes, eliminating unfair competition from some international law firms that are subject to more flexible regulations, particularly in countries where local law firms are subject to strict advertising bans.

In a more extreme scenario, on the other hand, for international legal collaborations to disappear completely, projects, cases, or matters that give rise to this requirement must disappear first.

Is it possible? We can find the answer in international trade and investments. For instance, will the US stop selling technology to the world? Will Germany stop exporting machinery? Will the UK stop lending money? Will developed countries stop investing in developing or underdeveloped countries, importing cheap labour from those countries, or extracting natural resources from those countries.

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INTERNATIONAL COLLABORATION OF LEGAL FIRMS

MILLY HUNG

Thirty years ago, in the 1990s, it was still relatively rare for mega law firms to have an established global reach. Together with the globalisation of legal education and a relatively mobile workforce of legal talent, the internationalisation of law firms has solidified the tightening of cross-border legal collaboration. Participants like us at Stevenson, Wong & Co. in Hong Kong have accumulated a great wealth of experience, be it high-profile or day-to-day work, in this competitive cross-border legal service arena.

To discuss how the process of law firm internationalisation works in practice, I will briefly discuss a few general learning points from how law firms from Mainland China and foreign countries establish their presence in the legal territory in Hong Kong and how they collaborate, interact and collide. Some of our encounters and experiences may indicate more general patterns.

Motivations

Much like various other types of professional services firms, such as architecture, engineering consultancy, auditing and management consulting, law firms attempt to go global for a few main reasons:

1. **Following the Client.** By establishing local branch offices or participating in global legal networks, law firms can sit close to their clients providing one-stop solutions for fulfilling both clients' physical and psychological needs.

2. Market Seeking. Drawing on their existing competitive advantages, such as brand image, reputation, existing legal experience, law firms can repeat their model and expand into foreign markets to service domestic clients, in a similar way to how franchises work.

3. **Oligopolistic Interaction**. Like Coca Cola and Pepsi competing in every corner of the world, giant law firms replicate and follow their competitors to maintain a comparative level of influence and to gain economies of scale. As law firms' structures and internal systems become more sophisticated, major overhead costs (including know-how, management, practical training, databases and IT security) can be shared across offices to benefit from economies of scale.

4. **Strategic Asset Seeking.** Essentially this refers to seeking the intangible assets that the law firm is currently lacking but is strategic to their expansion and growth.

Undoubtedly, if a law firm has multiple offices globally, its (potential) clients are likely to have more confidence in the firm, particularly since the firm has the ability to effectively manage a global scale operation and tend to have a more mature system and know-how which lets it survive.

Cross-Border Collaboration Models

There are mainly four methods that foreign law firms can work across international borders and collaborate with lawyers in host countries:

1. Establishing Foreign Branches. Establishing branches can avoid a lot of trouble linked with devising a new hybrid management style and a multi-cultural internal policy required for associating with local law firms. However, the relative price of setting up a branch is less economical.

2. **Contract-Based Association.** This type of association between foreign and local law firms is mainly based on an agreement between the foreign and local law firm under which fees, profits, premises, management or employees are shared.

3. **Partnership-Based Association.** This is achieved by establishing a new and single entity in the host country composed of partners or capital or both contributed by all the related law firms. The new entity may bear a merged title of all the related law firms. It is common that the dominant body of the association will take up the brand image and name of the merged office. While the name denotes 'partnership', it entails more of the actual commitment and joint venture elements of the cooperation, as the actual legal form varies across local practices.

4. Global Legal Network. To participate in a global legal network consisting of different jurisdictional law firms is the method of international collaboration which is both the simplest and has the lowest entry cost. A referral fee or disbursement arrangement can be negotiated between foreign and local law firms while serving clients with diversified global legal needs. Compared to a firm with international offices which also requires sharing a portion of the profits to the headquarter and other offices involved in the cross-border projects, the mechanism of sharing profits under a global legal network between firms is straightforward.

Foreign Firms Entering Hong Kong

The Hong Kong legal market, while seemingly saturated, is always packed with ambitious new firms which aspire to expand their local influence on the global market. As of today, there are thirty-five foreign-registered associations for legal practices in Hong Kong. Most of the foreign-registered law firms have their headquarters in the People's Republic of China.

Among these PRC firms attempting to expand their Hong Kong legal market, the leading companies have already become formally registered Hong Kong law firms and developed their special legal characteristics. Over numerous years of development, several associated local firms have merged completely with their associated foreign firms. Their names, corporate image, work practices and governance have been freshly rebranded into new international entities.

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THE SECRET TO CROSS-BORDER TRADE SECRET PROTECTION: HOW TO COLLABORATE TO ENFORCE YOUR CROSS-BORDER TRADE SECRETS

BY JOHN STONE & ZUNXIA LI

Even when geopolitical tensions between China and the U.S.A. arise or seem more visible, US and Chinese businesses' research, development, manufacturing, distribution often overlap or occur in partnership, as well as in competition. Navigating trade secret protection, particularly in US-Chinese cross-border situations may be the key to achieving significant success or suffering near-catastrophic failure in international commerce. This article provides an introduction to the US's and China's respective trade secret laws, and where and how trade secret disputes involving US and Chinese parties might be addressed and resolved.

A. The US's and China's Jurisdiction over US-Chinese Trade Secret Disputes

1. US Courts' Decisions

US Courts have allowed US plaintiffs' commercial claims against Chinese parties to be litigated in the US where the defendant's actions occurred, at least in part, and the plaintiff was injured in the US.

In Austar International Limited v Austarpharma, LLC, 425 F.Supp.3d 336 (D.N.J. 2019), for example, the plaintiff (Austar International) alleged that the defendant stole the plaintiff's trade secrets related to 'developing solubilization techniques for poorly soluble drugs', and 'osmotic pump controlled-release technology, nano-solubilization technology, and liposomal formulation technology' (*ibid* at 343 and 362). The Court explained that it had jurisdiction because the non-resident defendant's conduct caused the plaintiff to feel 'the brunt of the harm caused by that tort' in New Jersey, as the 'technological products' in question 'were researched and developed in New Jersey'. The defendant's relevant employees including the defendant company's CEO, accused of 'gut[ting]' the plaintiff business that was incorporated and headquartered in New Jersey. Moreover, the defendant researched and developed its products, and harmed the plaintiff, in New Jersey (*ibid* at 361, n. 2, and 362). The Court further found that a related litigation in China was not duplicative of the New Jersey litigation because the Chinese suit 'would not protect Austar International's rights to seek redress for violations of the DTSA'. The remedies sought in the two suits were not identical: the defendant resided in New Jersey, and the New Jersey Court was better suited to address New Jersey and US law (*ibid* at 363-65) (it 'serves the public interest to ensure that a United States owner of intellectual property has a forum to seek redress for alleged misuse of that intellectual property by another United States citizen living here and by a foreign corporation' and the 'the very rationale and purpose of the DTSA is, of course, the protection of trade secrets from foreign encroachment').

In contrast, in Phillips Medical Systems (Cleveland) Inc., 2021 WL 3187709 (N.D.Ill. 2021), a federal court in Illinois considered claims that Chinese defendants, when working for the plaintiff in the US on the 'design of X-ray tube products', downloaded trade secrets which they used to develop a competing x-ray tube product in China (*ibid* at *3-*4). The Court rejected

claims that the 'compulsory attendance of witnesses' was not available for witnesses in China because those witnesses were employed by the defendant who was a party in the US suit (*ibid* at *6). Moreover, witnesses in China could be compelled to appear for depositions pursuant to the Convention on Taking of Evidence Abroad in Civil or Commercial Matters (the Hague Evidence Convention). Additionally, electronic discovery made cross-border production of documents relatively easy, and there was 'no indication that Plaintiffs will seek to inspect the ... defendants' premises' in China (*ibid* at *8-*9).

Thus, even where documents and witnesses are located in China, modern and electronic discovery and related discovery procedures, such as pursuant to the Hague Convention Treaty, eliminated or sufficiently reduced related geographic difficulties to allow suit to proceed in US Courts. In other words, although the US and China – and their respective witnesses and documents in a litigation between parties in both countries – are continents and oceans apart, US courts will retain jurisdiction over and allow such suits to proceed under US trade secret law because such law will not likely be applied in China at all or in a manner sufficient to protect US actors.

2. **Chinese Courts' Decisions**

Chinese courts have allowed plaintiffs to bring lawsuits in China against defendants who have no domicile in China, where plaintiffs provide evidence that the defendants' actions occurred in China.

In Xiamen hotel group company v. American Employee, the plaintiff claimed that its US employee stole the plaintiff's trade secrets by downloading them to his personal storage disk before leaving. The court of first instance held that the defendant 'did not use the office equipment located in China and the infringement was committed in the United States', so the defendant was not subject to the jurisdiction of the Chinese court. The court of second instance held, however, that the 'plaintiff and its employees ha[d] signed written confidentiality agreements which prohibited employees from downloading the company's information to personal disks or other storage devices', and plaintiff 'clearly informed technicians in writing that the location of the company's mailbox server and the place where trade secrets were stored are both in Xiamen when hired'. Therefore, the court decided that 'although defendant was not in China, he intentionally and illegally intruded into the server in China, so defendant was subject to jurisdiction of Chinese court'.

In contrast, in Jiaxing Zhonghua Chemical Co. Ltd. v. Rhodia Operations S.A.S, the plaintiff alleged that the defendant illegally obtained and disclosed plaintiff's environmental impact report which involved technical secrets. The court held that even though the plaintiff claimed that the report was stored and illegally acquired in Jiaxing City, the plaintiff 'did not provide sufficient evidence to prove infringement occurred in Jiaxing City, so the court has no jurisdiction over this case'.

In addition, when determining the jurisdiction of a Chinese courts, the principles of inconvenient lawsuit and of parallel lawsuit may also apply, and a Chinese court may reject plaintiff's lawsuit and direct the plaintiff to sue in a more 'convenient foreign court' if the following conditions are met: (1) a defendant requests that case would be more convenient for jurisdiction of a Chinese court; (4) a case does not involve the

interests of the Chinese state, citizens, legal persons or other organizations; (5) the main facts do not occur within the territory of China, meaning that Chinese law is not applicable, or if a Chinese court has great difficulties in determining the facts and applying the law; (6) foreign courts have jurisdiction over a case where it is more convenient to litigate. Additionally, where both Chinese court and foreign court have jurisdiction, if one party brings a suit in a foreign court and the other party brings a suit in Chinese court, the Chinese court may accept it. If the foreign court applies or the party concerned requests a Chinese court to recognize and implement judgment, it shall not be permitted, unless otherwise provided in the international treaties concluded or acceded to by both parties. If a judgment of a foreign court has been recognized by a Chinese court, and a party brings a suit with the Chinese Court over the same dispute, the Chinese court shall not accept it.

B. USING DISCOVERY FROM ONE JURISDICTION IN THE OTHER COUNTRY'S COURTS

1. Using US Discovery in Chinese Courts

*Nokia Technologies Oy, 2022 WL 788702, *1 (S.D.Ca. 2022) (Nokia) (citing 28 USC.A. § 1782(a))* states:

Under Title 28 section 1782 of the United States Code, "[t]he district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal.

Indeed, the 'party seeking discovery is not required to establish that the information it seeks would be discoverable under the foreign court's law or that the United States would permit the discovery at issue in an analogous domestic proceeding' (*ibid*). Although *Nokia* was a patent dispute, discovery may also be obtained, pursuant to 28 USC.A. § 1782, for trade secret disputes. On this, see: *Kulzer v Esschem, Inc.*, 300 Fed Appx. 88 (3rd Cir. 2010); *In Re Illumina Cambridge Ltd.*, 2019 WL 5811467 (N.D.Ca. 2019).

Nokia, furthermore, stated that a district court may authorize discovery under section 1782(a) where '(1) the person from whom the discovery is sought "resides or is found" in the district of the district court where the application is made; (2) the discovery is "for use in a proceeding in a foreign or international tribunal"; and (3) the application is made by a foreign or international tribunal or "any interested person"' (Nokia, at *1). Even if the statutory requirements are satisfied, a district court may exercise its discretion to deny the requested discovery, based on the following factors: (1) whether 'the person from whom discovery is sought is a participant in the foreign proceeding'; (2) the 'nature of the foreign tribunal, the character of the proceedings underway abroad, and the receptivity of the foreign government or the court' to US federal-court assistance; (3) 'whether the § 1782(a) request conceals an attempt to circumvent foreign proof-gathering restrictions or other policies'; and (4) whether the request is 'unduly intrusive or burdensome' (*ibid*).

Section 1782 broadly defines 'use', in a litigation proceeding outside of the US, as 'something that will be employed with some advantage or serve some use in [a foreign] proceeding'. In re Evenstar Master Fund SPC for and on behalf of Evenstar Master Sub-Fund I Segregated Portfolio, 2021 WL 3829991, *8 (S.D.N.Y. 2021). 'The intended "use" of such discovery need not be imminent, but rather, must be "within reasonable contemplation at the time" of the § 1782 petition' and 'tend[...] to prove one or more underlying claim before the foreign tribunal. [...] Because the statute does not "condone speculative forays" into foreign law, the "for use"' requirement also does not require that the requested materials be relevant or discoverable in the foreign proceeding (ibid [citations omitted]). The '"ultimate admissibility of the evidence is determined by the foreign tribunal" and the statute does not direct district courts to "engage in comparative analysis to determine whether analogous proceedings exist here"' (*ibid* [citation omitted]). Therefore, US Courts view the relevance of the desired discovery 'permissive[ly]' (*ibid*).

The mandatory criteria are straightforward. Discovery from a party (or not party) in the US may be obtained in a federal court located in the district where that party or non-party is located, even if only sought for use in a suit in another country, including Chinese courts 'which qualify' under the US statute 'as foreign tribunals' (*ibid* at *2).

The discretionary factors are equally interesting. For example, the non-party from whom discovery was sought in Nokia, was determined, based on a sworn statement of a Chinese attorney, to not be subject to such discovery in China (*ibid* at *2). Moreover, no evidence was presented to indicate that the Chinese would not allow the discovery obtained in the US to be used in the Chinese proceeding or that the party seeking discovery in the US was attempting to 'circumvent [China's] proof-gathering restrictions or other policies' (*ibid* at *2-*3). Lastly, although 'unduly intrusive or burdensome requests may be rejected or trimmed,' potential or actual trimming does not necessarily bar any discovery; it just may require the discovery demands to be reduced or altered, as often occurs when US litigation (*ibid* at *3).

Once these statutory requirements are met, the district court may grant 'discovery under § 1782 in its discretion ... "in light of the twin aims of the statute: providing efficient means of assistance to participants in international litigation in our federal courts and encouraging foreign countries by example to provide similar means of assistance to our courts"'. That discretion is informed by

(1) whether "the person from whom discovery is sought is a participant in the foreign proceeding;" "the nature of the foreign tribunal, the character of the proceedings underway abroad, and the receptivity of the foreign government or the court or agency abroad to US federal-court judicial assistance;" (3) "whether the § 1782(a) request conceals an attempt to circumvent foreign proof-gathering restrictions or other policies of a foreign country or the United States;' and (4) whether the request is "unduly intrusive or burdensome. (In *re Evenstar Master Fund SPC for and on behalf of Evenstar Master Sub-Fund I Segregated Portfolio, 2021 WL 3829991, *6 (S.D.N.Y. 2021)*).

That said, even documents located in a foreign jurisdiction (specifically including in China) may be discoverable pursuant to § 1782 (*ibid* at *12). Depositions of corporate representatives may

also be obtained, even if preparation for their testimony requires consultation with witnesses located in China (*ibid* at *15).

Lastly, on June 13, 2022, in *ZF Automotive U.S v. Luxshare, Ltd., 142 S.Ct. 2078 (2022)*, the US Supreme Court issued a ruling about whether Section 1782 could be used to obtain discovery for international arbitrations. The Court examined whether the phrase 'foreign or international tribunal' in § 1782 includes private adjudicative bodies or only governmental or intergovernmental bodies. Analyzing the text of the statute, the Court observed that the word 'tribunal' appears within the phrase 'foreign or international tribunal'. The Court noted that 'attached to these modifiers, "tribunal" is best understood as an adjudicative body that exercises governmental authority' (*ibid*). The Court added that this interpretation is supported for other reasons, including that: (1) the animating purpose behind § 1782 is comity, so enlisting US courts to assist private bodies would not serve this purpose; (2) extending § 1782 to include private bodies would be in tension with the Federal Arbitration Act (FAA), which only permits the arbitration panel to request discovery and does not allow pre-arbitration discovery; and (3) the arbitral tribunals at issue were not governmental or intergovernmental adjudicative bodies, since their authority derived solely from private agreement. Applying this standard, the Court determined that the arbitration was not before a 'tribunal' within the meaning of § 1782 because no government was involved in creating the panel or prescribing its procedure. Although the US Supreme Court's decision appears to narrow the universe of arbitrations for which § 1782 may be used, the question of whether and when an arbitral tribunal may be considered to 'exercise governmental authority' remains an open issue because the Court noted that '[n]one of this [analysis] forecloses the possibility that sovereigns might imbue an *ad hoc* arbitration panel with official authority' (*ibid).* In other words, while this decision changes the analysis regarding whether § 1782 discovery may be used in arbitrations, it may not change the result as foreign governments are often integral parts of companies from those countries. Therefore, the governmental support for or connection to a foreign actor may 'imbue an *ad hoc* arbitration panel with official authority'. Importantly, this decision only applies to arbitrations; it does not affect the application of § 1782 to disputes filed in courts.

2. **Using Chinese Discovery In US Courts**

There is no discovery procedure similar to that of the United States under the Chinese legal system. If a party intends to obtain evidence in China, it may do so by using the following approaches:

a. Collecting evidence through the Hague Evidence Convention

China and the US, as members of the Hague Evidence Convention, may apply its rules to conduct evidence collection in China. Under this convention, Chinese courts usually only allow access to documents that are 'directly and closely related to litigation disputes'. If an application might violate Chinese laws or endanger China's national sovereignty, security or public interests, the Court will limit the scope of evidence collection or refuse the application.

b. Collecting evidence through Chinese investigation agency or law firm
Foreign authorities or individuals are not allowed to collect evidence on Chinese territory by any means other than using the Hague Evidence Convention or diplomatic channels. In practice, however, a party sometimes seeks the assistance of a Chinese investigation agency or law firm to collect evidence, or arrange witnesses to make witness testimony in Hong Kong or other countries or regions. Since Chinese law does not enable non-Chinese parties in Chinese Courts to gather evidence on Chinese territory by any means other than using the Hague Evidence Convention or diplomatic channels, obtaining evidence in China to facilitate the execution of judgments based on such evidence in China may be difficult.

c**. Collecting evidence through a court order of evidence preservation or investigation and evidence collection**
Under the Chinese legal system, if a party wants to obtain evidence from an adversary or third party, it usually needs to apply to court for evidence preservation or investigation and evidence collection with the help of a court. However, the premise for the availability of this approach is that a corresponding litigation case has been brought to a Chinese court.

China has further strengthened its protections of data and data exit restrictions, and for cross-border provision of data information or personal information, China requires the approval of competent Chinese authorities with or without consent of the collected party.

C. CONCLUSION

Chinese–American commerce has vast economic potential, making proactive lawyering and use of the DTSA and § 1782 discovery investments as important as investment in intellectual property. Parties who are sued for trade secret misappropriation should move quickly to get proper legal advice. Proactive legal consultation and strategizing with regard to DTSA discovery in US Courts is critical for risk reduction, success, and return on investment.

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AN AFRICAN PERSPECTIVE ON CROSS-BORDER LEGAL COLLABORATION AND OPERATIONS

BY TERENCE HUSSEIN

When I first started practicing law internationally in southern Africa thirty years ago, things were simpler, in the sense that communication was more basic. There was no internet, no emails, and none of the gadgets that we know of today. If you wanted to communicate with a lawyer outside your jurisdiction you needed to write a letter, affix a postage stamp to it, and drop it off at the post office. Thirty years ago, I worked in a "modern" law firm which was, "well equipped". It boasted a telex machine (an upgraded telegraph device that sputtered out words in machinegun-like bursts). The pride and joy of the firm was a fax machine. It was revolutionary and could send a document by putting it through the machine, after which it would come out instantaneously on the other side of the world. As there was no World Wide Web for you to google search for a foreign lawyer you had to subscribe for or enrol in a directory such as Martindale and Hubble which lawyers received as a hardcover book every year.

Cross-border legal work was therefore not only slow and cumbersome but restricted to a chosen few. As contact and communications were limited, cross-border legal work was the preserve of multinational legal franchises and giant accounting firms.

Traditionally, the types of cross-border work that existed were in the fields of intellectual property such as copyright, patent, trademarks, and industrial designs. There would also be commercial work such as rendering assistance with local registration processes and compliance requirements.

With this history in mind, it is readily apparent what has changed over the last three decades. Technology. Nothing has changed the face of the legal profession more than technology. During my time in practice, I have witnessed more changes in the legal profession in the last five to six years than I believe has occurred over the past century. Everyone now is on the internet and connected virtually by WhatsApp, Snapchat, WeChat, zoom, email, etc.

Lawyers like us are now on case management systems, having finally binned the mountains of paper hitherto synonymous with our profession. Even in a developing country like Zimbabwe, courts, such as the Constitutional Court, Supreme Court Commercial Court, are on an online case-management and filing system. They have gone paperless. You can now file documents with a court online and it is no longer a requirement that you be at a particular place to do so. The courts in Zimbabwe, because of this, have done away with the delays that were occasioned by having to prepare papers and physically deliver them to a particular office. This has significantly shortened the time it takes for a matter to mature and get it to court to be determined. The advent of the electronic management system means it is now theoretically possible to have a matter determined in six months. The laws of the country have been amended so that a court hearing may now be held virtually at the discretion of the court itself. Therefore, an investor based in China may now give evidence before the court from his base in, say, Guangzhou and does not have to be physically present in the country. The net effect

of this is that it makes the legal process in a cross-border context much easier and less costly. It has also made it a lot more transparent. This is not unique and is the direction the practice of law is going the world over.

The legal profession itself, whether it be here in Zimbabwe or across the world, has also changed significantly because of the relaxation of entry requirements into the profession. The world over, law graduates are being churned out at a rate never before seen and in quantities that cannot be readily absorbed by existing practices. There is a joke that is told at Stellenbosch University, in Cape Town, South Africa that "at Stellenbosch University every rock, tree, and stone is studying law..!!!"

What made practicing law lucrative was that the profession was made up of a monopoly of a few qualified lawyers who could pick and choose their clients and charge a fee that they would determine more or less freely. The elevated levels of entry to the profession and changes in technology have seen to it that this lucrative monopoly status has been diluted. These are no longer the good old days and, compared to what was, the current state of the profession is certainly not business as usual. Lawyers will have to up their game to remain viable in the face of stiff competition and technology that is hungrily eating away at spheres of practice which have long been the preserve of the few. Clients, thanks to a worldwide improvement in education and access to technology, are more demanding of quality, and an affordable price. An investor or fellow cross-border lawyer can find a suitable person to represent them in any part of the world at the click of a button. It is easy for clients to cross check information and advice that they receive from a lawyer. Due to this the lawyer who is lazy and simply does work and gets a fee regardless of their quality could end up facing lawsuits for mis-representation or miss-advice.

On the other hand, cross-border collaboration has its constraints. It is now done under extreme pressure within confined time limits. Email and the various other communication methods mean that answers are required within a few hours as opposed to the laid-back fourteen-days-to-one-month it would take to communicate in the past.

Cross border investment itself has changed too. Thirty years ago, when we spoke of cross-border legal representation we usually referred to investment that was coming from Western Europe and the United States. The advent of China as an economic giant has truly changed this familiar terrain. In Africa, China is a major investor, having built world-class airports in Angola, Ethiopia, and Zimbabwe, major motorways in Kenya, and high-speed rail systems in Ethiopia. In fact, there is no part of Africa that can claim that China has not made significant infrastructural investments therein. Additionally, China has a voracious appetite for mineral resources which it needs to feed its ever-expanding manufacturing capacity. In this regard China has invested heavily in mining for copper in Zambia, chromite in Zimbabwe, oil in South Sudan, and many other ventures.

It is my experience with investors from China that they are extremely particular on the legal environment and the legal processes that need to be followed. There is therefore a need to provide these investors with quality legal advice. Most of the investors who come to Africa from China are learned and speak English or the language of the

territory quite well. I find that the members of the legal profession in Africa have no ambition to try and learn Chinese so that they can fully understand the people and investors with whom they are dealing. Lawyers not only in Africa must come out of their comfort zone and accept that China is going to be the next most industrialised country in the world and will be looking for investment and advice.

Therefore, my suggestions to cross-border lawyers are :

- ensure that you are completely tech-savvy, that is, you have a clear understanding of the latest technology around you and use it.

- Remain up to date on international standards, laws and provisions required regarding international investment, not to mention laws within your own jurisdictional area.

- Be honest and truthful, and be a person of integrity. Do not try to give advice simply to suit the situation. Give your honest assessment and even if it is negative. Indeed, often you will find that what the client would like to do is not possible but as a good lawyer you should be able to provide lawful alternatives.

- Understand your client's background and needs so that you know where they are coming from and try to grasp the areas of interest and concern that they may have.

- Be reasonable in the way in which you levy your charges and avoid the rainmaking-fee syndrome. It is not a crime that your client has come to consult you and therefore he should not be penalised with a bill that is meant to put him out of business to keep you in yours.

- Be even handed, do not charge because of the name on the letterhead but because of the type of matter and the time that you will have spent on it.

- Make sure that you join professional bodies where your clients have easy access to verify your ability and your reputation.

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A LOOK AT THE CHANGES IN VIETNAM'S NEW IP LAW

BY LINH THI MAI NGUYEN, CHI LAN DANG, HIEN TH THU VU & THANH PHUONG VU

The National Assembly of Vietnam ratified a new Law on Intellectual Property on June 16, 2022 (the Amended IP Law), marking the most significant amendment of the country's primary legislation for intellectual property since 2009. The Amended IP Law (with the exception of a few provisions that will be delayed) took effect on 1 January 2023.

While many aspects of the law have been changed (80 out of 222 articles of the previous IP Law have been amended, and 12 new articles have been introduced), the overall impact of these changes is relatively subtle, serving primarily to bring Vietnam's IP law in line with the country's commitments in international treaties and trade agreements, and to provide further detail and clarity to vague provisions.

Some notable changes include:

Protection of sound marks

To fulfil Vietnam's commitments under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Amended IP Law introduces the protection of sound marks as trademarks. However, to facilitate the examination of these non-traditional marks, the law provides that sound marks must be presentable in graphical representations.

Sound marks comprise of 'copies [in whole or part] of copyrighted works, unless with consent from the copyright holders' and can be refused under a supplemental provision, which is expected to better secure copyright in broad terms.

'Bad Faith' becomes an officially available ground for opposition and invalidation

For the first time, the Amended IP Law recognises an act of 'bad faith' as an independent legal ground to oppose or invalidate a trademark application or registration. The lack of bad-faith grounds has long been an obstacle to fighting trademark squatters, especially for trademark holders without registrations in Vietnam.

Definition of well-known mark

The definition of a well-known mark is changed to refer to a mark that is 'widely known by the relevant sectors of the public in the territory of Vietnam', as opposed to the previous definition: 'widely known by consumers throughout the territory of Vietnam'. This more focused definition is in line with international standards, and improves the chances of trademark owners to have their marks recognised as well-known. The Amended IP Law also clarifies that well-known status must be acquired before the filing date of a later trademark to serve as grounds for refusal.

New grounds for termination of registered marks

The Amended IP Law adds two new grounds for termination of the validity of a registered trademark: (i) the registered trademark has become the common (generic) name of goods or services bearing that mark; and (ii) the use of a registered trademark by the owner or a person authorised by the owner misleads consumers as to the nature, quality, or geographical origin of the goods or services.

Secret prior art in patent examination

A significant amendment to Clause 1, Article 60 of the Amended IP Law on the novelty of inventions is to broaden the scope under which an invention can be considered to have lost its novelty. For the first time in Vietnam, 'secret prior art' – a patent application with an earlier filing date or priority date but published on or after the filing date or priority date of an examined patent application – is introduced as a prior art document

In the diagram above, at the time when application A2 is filed, a secret prior art A1 has already been filed but not yet published, making it inaccessible to the public. At this point, only the A1 applicant and the IP Office are aware of the A1 application.

Under the current provisions of the 2005 IP Law, as amended in 2009 and 2019, the A1 patent application was not eligible to be a prior art document when assessing the novelty of A2. However, based on the 'first-to-file principle' and the principle of priority, the IP Office has still had other approaches to bar the patentability of an A2 patent application if there is such an A1 application. By supplementing the provisions of Article 60.1(b) of the Amended IP Law, the A1 patent application can now officially be considered 'secret prior art' to assess the novelty of A2. As a result, this amendment provides a more legitimate, direct, and comprehensive tool for assessing novelty using 'secret prior art.'

From the explanation of the IP Office, 'secret prior art' is not limited to the case where the applicants of A1 and A2 are different, in other words, A1 and A2 can be identical. In addition, application A1 must be filed in Vietnam to be a 'secret prior art'. Finally, one can see that the provision on the use of 'secret prior art' applies only to the assessment of novelty of an invention, not to the degree of inventiveness.

New Grounds for Patent Invalidation

Under the current IP Law there are several grounds on which a patent can be invalidated or partially invalidated. An English translations of Article 96 reads as follows:

Article 96. Invalidation of protection titles

1. A protection title is entirely invalidated in the following cases:

a) The applicant files an application for trademark registration in bad faith;
b) The application for invention patent is filed in contravention to the regulations on security control over invention set out in Article 89a of this Law;
c) The application for invention patent concerning an invention that is directly created based on genetic resources or traditional knowledge about genetic resources but does not disclose or incorrectly discloses the origin of the genetic resources or traditional knowledge about genetic resources in such application.

2. A protection title is entirely or partially invalidated if the entire or part of such protection title fails to satisfy the provisions of this Law on registration rights, protection conditions, application amendment and supplementation, invention disclosure, "first to file" principle in the following cases:

a) The applicant does not have the right to register and is not assigned the right to register an invention, industrial design, layout design or trademark by the person having the right for registration;
b) The subject matter of industrial property fails to satisfy the protection requirements set forth in Article 8 and Chapter VII of this Law;
c) The amendment, supplementation to the application for registration of industrial property broaden the scope of the subject matters disclosed or mentioned in the application or change the nature of the subject matters in the application for registration;
d) The invention is not disclosed fully and expressly to the extent that based on which, the persons with ordinary knowledge in the respective art can practise such invention;
đ) The invention is granted a protection title beyond the scope of disclosure in the original specification of the application for invention registration;
e) The invention fails to satisfy the 'first to file' principle set forth in Article 90 of this Law.

In this Article, the term 'invention' includes both 'invention' and 'utility solution'.

The provision on security control is mentioned in the current regulations, but it does not clearly specify the objects of such provision. The Amended IP Law clarifies that this affects 'Inventions in technical fields that have an impact on national defence and security, created in Vietnam, and under the registration right of an individual who is a Vietnamese citizen and permanently resides in Vietnam, or of an established organisation under Vietnamese law'. More specific guidelines, however, are still needed to accommodate cases such as inventions partially created in Vietnam, jointly owned by Vietnamese and foreign entities, and so on.

Although the grounds relating to disclosure, amendment of a patent description, and the first-to-file principle are mentioned under the current law as requirements during the examination of a patent application, they have never been recognised as a basis for patent invalidation.

Administrative Sanctions Retained
Early drafts of the Amended IP Law had removed administrative sanctions from the list of ways to protect IP rights. This was met by strong negative feedback from scholars and legal practitioners and, unsurprisingly, the National Assembly agreed to keep administrative sanctions in the promulgated law.

Outlook
Although some provisions remain unclear, and will require further detail and guidance in subsequent legal instruments, the Amended IP Law demonstrates Vietnam's commitment to fair and transparent protection of IP rights, and moves the country closer to international standards and practices.

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