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An Analysis of Trade Secret Regimes in Asian States & USA

Dr. Manisha Madhav^{1*}, Dr. Papiya Golder², Ms. Maitrayae Sadhu³, Dr. Keshav Madhav⁴

¹Assistant Professor, School of Law, UPES, Dehradun.

²Associate Professor, Brainware University, Kolkata.

³Assistant Professor, Brainware University, Kolkata.

⁴Assistant Professor, School of Law, UPES, Dehradun

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Abstract

Today is an era of globalization and innovation. Not only the developed states but also the developing states are into race to compete in technology-based innovation, build their economies at a much faster pace and attract more investments into their jurisdictions. One of the ways to achieve this goal is through having strong IP protection laws. If the state is having sui generis protection in IP laws, then more companies may end up investing their funds leading to increase in the state's economy. Among other IP laws like copyright, trademark, Patents and others, Trade secrets law is an emerging area which attracts foreign investors majorly in case they do not want to opt for other protection like patents which require more funding and where the protection is time bound. So, in such cases they look forward for protection like trade secret law which provides protection till the time the owner can keep the valuable information secret. This paper explains the trade secret regime in different Asian jurisdictions and their comparison with the USA trade secret protection.

Keywords: Trade secret, Jurisdictions, Innovation, IP laws, Investments, protection.

Introduction

Trade secrets in various jurisdictions

Phillippines

In Phillipines, protection of trade secret or undisclosed information is an independent IP rights.as such. Though the supreme court of Phillipines have defined the trade secret as a “plan or process, tool, mechanism, or a compound known only to its owner and those of his employees to whom it is necessary to confide it.”¹ this definition was adopted by the apex court in Air Phillipines v. Pennswell Inc.² There are other laws as well which protect undisclosed information such as, under article 291 revised penal code³ & article 292⁴ and under

Data privacy act⁵. Contracts can provide protection for trade secrets, and if they are violated, the party that was wronged can file a lawsuit for damages and breach of contract. So, accordingly proper caution and care shall be taken while drafting any contract involving protection of undisclosed information.

Thailand

One of the defence to infringement of any undisclosed information can be honest trade practice i.e. if a person obtains or crack any undisclosed information which is supposed to be of another's business valuable information as a part of honest concurrent practice, without having any intention to steal the information or deceive the other party, then it will not be considered as an infringement of trade secret rather it will be considered as a defense against infringement. In Thailand, a trade secret is violated when it is disclosed, taken, or used without the owner's permission in a way that is against ethical business practices.⁶ The perpetrator of the infringement must know or have a good reason to believe that the act is unethical, and he has knowledge that it is against the honest ethical practice. Following acts are against the honest ethical practices:

- Contract violations.
- violations of confidentiality or inducements to violate them
- bribery
- coercion
- fraud
- theft
- receiving stolen goods and
- electronic or other espionage infringements

whereas, on the other hand, On the other hand, the following actions are not regarded as infringement: divulging trade secrets by an individual who acquired them through a transaction without being aware that the other party did so illegally; divulging trade secrets by a state agency protecting public health or safety or furthering non-commercial public interests; independently discovering through one's own method of invention or development using one's own expertise; and reverse engineering.

Any dispute involving trade secrets may be brought before the Trade Secret Board for resolution through mediation. also, a suit can be filed in the court for remedies such as interim or permanent injunction and/or damages within three years of the infringing act and the date from which the infringer are known, or within ten years of the infringement act.

Indonesia

In Indonesia, trade secret is violated when a person deliberately discloses the trade secret or breaks the agreement, or the obligation, either written or not, to maintain the confidentiality of the relevant trade secrets.⁷ Trade secret in Indonesia is defined as, information in the field of technology and/or business that is not known by the public and has economic values as it is useful in business activities, and the confidentiality of which is maintained by its owner.⁸ Trade secret is infringed when a person deliberately discloses the Trade Secret or breaks the agreement, or the obligation, either written or not, to maintain the confidentiality of the relevant Trade Secret.⁹ On the other hand, it is not considered to be an infringement if, the disclosure of the Trade Secret or the use of the Trade Secret is based on the interest for the security and defense, health, or safety of the public; or the reverse engineering of a product that is produced from the use of the Trade Secret of another person is solely conducted for the interest

of making further development of relevant products.¹⁰ The act also provides criminal provisions along with civil remedies (in monetary terms) as any person who deliberately and without rights, uses the Trade Secret of another party, or conducts any acts as referred to in Article 13 or Article 14 shall be sentenced to imprisonment of at most 2 (two) years and/or a fine of at most Rp300,000,000.00 (three hundred million rupiahs).¹¹

China

In China, trade secret is defined as any technical information, operational information or commercial information which is not known to the public and has commercial value, and for which its obligee has adopted measures to ensure its confidentiality.¹² Trade secret protection is highly valued in the People's Republic of China, where the Civil Code, which goes into effect on January 1, 2021, states that trade secrets are a kind of intellectual property right and are thus subject to intellectual property laws.¹³ As far as a legislation related to trade secret is concerned, there is no unified law within the jurisdiction of China. There are different legislations related to trade secret, the provisions of the Supreme People's Court on several issues Concerning the Application of Law in the Trial of Civil Case of Trade Secret Infringement (effective from September 2020), the Interpretation of the Supreme People's Court on Some Matters about the Application of Law in the Trial of Civil Cases Involving Unfair Competition (effective since January 2021), the Labor Contract Law, the Criminal Law, the Civil Code, the Anti-Unfair Competition Law (revised in 2019) as well as other laws, local regulations, and judicial interpretations.

With respect to remedies in case of infringement of trade secrets are concerned, a complaint can be filed against the person who has infringed any trade secrets. Local administration for market regulation is the agency responsible for lodging complaints and all. It has the power to initiate actions against various entities, impose quasi injunctions as well as fines. Thus, the owner of the said trade secret has these remedies granted by the court. Also, if trade secrets involve criminal offence, resulting in infringement of that nature, there's an imprisonment of 10 years for the same.

Following are the important legal provisions relating to trade secrets:

Whoever commits any of the following conduct to infringe upon a trade secret shall, - if the circumstances are serious, be sentenced to imprisonment of not more than three years with a fine or be sentenced to a fine only; or - if the circumstances are especially serious, be sentenced to imprisonment of not less than three years and not more than ten years with a fine¹⁴:

1. Obtaining a right holder's trade secret by theft, bribery, fraud, coercion, electronic intrusion, or any other illegal means.
2. Disclosing, using, or allowing any other person to use a trade secret obtained from a rightholder by any means as mentioned in the preceding paragraph.
3. Disclosing, using, or allowing any other person to use a trade secret known by him or her in violation of confidentiality obligations or the right holder's requirements for keeping the trade secret confidential.

As per the interpretation of the Supreme People's Court, serious circumstances would be interpreted in case damages suffered by the right holder or in case the illegal gain made by the defendant exceeds RMB 300,000 (around 47,000 USD), whereas especially serious circumstances would cover damages suffered by the right holder or illegal gain made by the defendant is RMB 2,500,000.¹⁵

Anqing Hengchang Machinery Co.,Ltd. Case:

Anqing Hengchang Machinery Co.,Ltd. is the world's largest manufacturer of non-woven packaging machines. • Liu Guangfu was a former employee of Hengchang. He changed his name after leaving the Anqing Hengchang and joining Jinhu Sanmu which is a competitor of Anqing Hengchang. Later, he took advantage of his position and stole the designs of Anqing Hengchang, and after minor changes used it for Jinhu Sanmu. When the former company came to know about it, they filed a complaint and on inspection they found documents containing designs of Anqing Hengchang with its logo encrypted on the same. A favorable decision in the civil case against the Liu Guangfu and the competitor company Jinhu Sanmu was given.

Agilent case

Agilent Technologies is an American chemical detection equipment maker. After leaving Agilent, a former employee founded his own business in Shanghai, which competed with Agilent in the same industry. Agilent bought the gas chromatographs from the former employee's business for analysis, and after that, reported the case to the police in Pudong, Shanghai for misappropriation of Agilent's trade secret after purchasing the gas chromatographs of the former employee's company for analysis. However, the prosecutor did not believe that the evidence is enough to initiate a criminal case and returned the case to the police twice. At this point, the matter was taken that the information gathered during the criminal investigation was adequate to file a civil lawsuit against the infringer. The civil action has finally been resolved, with the former employee willingly paying Agilent damages and closing their business's chromatographs for analysis. Nevertheless, the prosecutor twice gave the case back to the police because they did not think there was sufficient evidence to file a criminal charge.

Kluber Lubrication case

Kluber Lubrication is the world's leading manufacturer of specialty lubricants for equipment manufacturers. The defendant in this case is a distributor of Kluber, who has been selling a large amount of fake and unauthorized subdivided lubricants for many years through a "half fake, half authentic" approach. The "half fake" part is that the defendant filled the lubricants of other brands purchased at low prices into specially ordered containers with stickers bearing the counterfeit registered trademark of the right holder, and then sold to the public at the price of genuine "Kluber" brand lubricants, from which illegal profits were made. The "half authentic" part is that the defendant customized small containers from others, subdivided the large cans of Kluber lubricants into small cans with stickers bearing the counterfeit registered trademark of the right holder, and then sold them.

In the Criminal case, the act of unauthorized subdivision of lubricants from large cans to small cans was not considered as a crime. The profits from the infringement were thus determined only from the seized fake lubricants on site as 260,000 RMB. Therefore, the defendant was charged the crime of counterfeiting a registered trademark, and the penalties in the criminal case were relatively low. Kluber also negotiated with the defendant for civil compensation and the infringer had been willing to pay only a small amount of compensation, citing the criminal verdict as the ground. In the civil case, Kluber obtained full support from the court and the defendant undertook all the damages for the entire infringing activities.

Jiaxing Zhonghua Chemical Co., Ltd. et al.

The dispute between the plaintiffs Jiaxing Zhonghua Chemical Co., Ltd. et al. and the defendants Wanglong Group Co., Ltd. et al. over the infringement of technical secrets involving the chemical vanillin was resolved by the Supreme People's Court of China (the "SPC") on February 26, 2021. The greatest sum of money ever awarded in a trade secret infringement case, RMB 159,000,000, was awarded to the plaintiffs by the SPC, which also mandated that the defendants stop their infringement. In this instance, the SPC found that natural persons connected to the company that was infringing (such as the company's legal representatives, beneficial owners, and key management personnel) should be held jointly liable with the company under specific circumstances. Additionally, the burden of proof should be shifted to the party accused of infringement after the right holder provides prima facie evidence of the existence of trade secrets.

Thailand

In Thailand, stipulates that infringement of trade secrets happens via an act of disclosure, deprivation or use of the trade secrets without the consent of the owner in a manner contrary to honest trade practices, and, the infringer must be aware of or have reasonable cause to be aware that such act is contrary to honest trade practices.¹⁶ Acts contrary to honest trade practices include breach of contract, infringement or inducement to infringe confidentiality, bribery, coercion, fraud, theft, receiving of stolen property or espionage through electronics or other means. In contrast, the following acts are not considered infringement: disclosure by a person who obtained the trade secret through a transaction without knowing that the other party to the transaction obtained the trade secret illegally; disclosure of trade secrets by state agency for the protection of public health or safety, or for the benefit of other public interests with no commercial purpose; independent discovery via own method of invention or development through his own expertise; and reverse engineering. A trade secret dispute may be submitted to Trade Secret Board for mediation and settlement. Alternatively, it is possible to file a lawsuit in Court within three years from the date on which infringement act and the infringer are known, or within 10 years from the date of the infringement act, for remedies such as interim/permanent injunction, and/or damages.

Vietnam

Trade secret is defined as "information obtained from activities of financial or intellectual investment, which has not yet been disclosed and which is able to be used in business".¹⁷ when an employee performs a job which is directly related to business or technology secrets, the employer may reach a written agreement with the employee on the content and duration of protection of such secrets, and benefits and compensation in case of violation by the employee.¹⁸ An employer employing 10 or more employees must have internal working regulations in writing, which provides protection of assets and technological and business secrets and IP of the employer.¹⁹ Infringement of business secrets is defined (such as accessing the same by counteracting the security measures; disclosing, using business secrets without the permission of owners; breaching security contracts) as a type of unfair competition act.²⁰ In practice, trade secrets disputes are less commonly seen compared to other IP disputes. It is recommended to register the internal working regulations / labour rules with labour authorities to strengthen the probability of enforcement.

Malaysia

In Malaysia, trade secrets are protected by the common law tort of breach of confidential

information and/or by contract. Similar to Singapore, in order to succeed in an action for breach of confidence, three elements must be established: (1) the information sought to be protected is of a confidential nature; (2) the information was communicated in circumstances importing an obligation of confidence; and (3) the information was used in an unauthorised way to the detriment of the plaintiff. It is possible to enhance the protection of trade secret by contract, such as non-disclosure agreements when disclosures are made to third parties on a need-to-know basis. It is worth noting that under the law of confidence, disclosure of confidential information may be permitted when there is an overriding public interest in disclosing those facts to the public, or in the scenario that the disclosure of evidence concerning the commission of criminal offences is necessary.

Singapore

Trade secrets are protected primarily through the law of confidence against unwanted disclosure, acquisition and/or use by third parties. Following criteria must be qualified for protection:

- It must be shown that the information is considered confidential in nature.
- It must be shown that the recipient of the information was imposed an obligation of confidentiality to keep the information confidential. An obligation of confidentiality can be imposed by contractual measures such as employment contract and non-disclosure agreement, or by equity measures such as password protection of information so that the recipient knows or ought to reasonably know that the information is confidential.
- It must be shown that there was a breach of the obligation of confidentiality. In exceptional cases, the recipient of the information may be able to justify the disclosure if it is in the public interest to do so.

If a breach of confidence is established, various remedies are available, such as injunction, monetary compensation, and/or order for delivery-up or destruction, as compensation for the misappropriation of the trade secrets.

India

Trade secret protection in India is not governed by a specific statute dedicated solely to trade secrets, as seen in some other jurisdictions like the United States. Instead, trade secrets in India are protected through a combination of common law principles, contract law, and certain specific statutes. Here are the key aspects of trade secret protection in India:

Legal Framework

Common Law

Principles

Breach of confidence: Trade secrets are primarily protected under the common law principle of breach of confidence. This principle imposes a duty on individuals who receive confidential information to not disclose it improperly. To succeed in a claim for breach of confidence, the claimant must prove: that the information has the necessary quality of confidence, and that the information was imparted in circumstances importing an obligation of confidence. There was unauthorized use of that information to the detriment of the party communicating it.

Contract Law

Non-disclosure agreements: One of the most effective tools for protecting trade secrets in India is the use of non-disclosure agreements. These legally binding contracts specify the confidential information and prohibit the parties from disclosing it.

Employment Contracts: Employers often include confidentiality clauses in employment contracts to protect trade secrets. These clauses bind employees to maintain confidentiality during and after their employment.

Statutory Protections

While there is no specific trade secrets act, certain statutes provide indirect protection:

The Indian Contract Act: Sections related to breach of contract can be invoked if a trade secret is disclosed in violation of a contractual agreement.

The Information Technology Act: This act addresses unauthorized access to computer systems and can be used to protect digital trade secrets.

Intellectual Property Laws: While not directly protecting trade secrets, laws related to patents, trademarks, and copyrights can sometimes provide ancillary protection.

Enforcement Mechanisms

Civil Remedies: The primary enforcement mechanism is through civil litigation. Parties can file suits for injunctions to prevent further disclosure of trade secrets and seek damages for any losses incurred.

Injunctive remedies: Courts can issue injunctions to prevent the disclosure or misuse of trade secrets. This is often a crucial remedy to halt any ongoing harm.

Damages: Monetary compensation can be awarded to the aggrieved party for losses suffered due to the misappropriation of trade secrets.

Challenges and Considerations

Judicial Delays: One of the significant challenges in India is the slow pace of judicial processes. Delays in litigation can reduce the effectiveness of legal remedies.

Lack of specific legislations: The absence of a dedicated trade secrets statute means that protection relies heavily on judicial interpretations and the enforceability of contractual agreements.

Cultural attitudes: Awareness and importance given to trade secret protection can vary, impacting how rigorously businesses implement protective measures.

Practical Measures for Businesses

Robust Contracts: Ensure that all NDAs and employment contracts have clear, enforceable confidentiality clauses.

Security contracts: Implement strong physical and digital security measures to protect trade secrets, including access controls, encryption, and monitoring systems.

Employee Training: Regularly train employees on the importance of protecting trade secrets and the legal obligations they are under.

Periodic audits: Conduct periodic audits to ensure compliance with trade secret protection policies and identify any potential vulnerabilities.

USA

Trade secret laws in the United States are primarily governed by a combination of state laws and federal statutes.

Federal Law: Defend Trade Secrets Act (DTSA) of 2016

The DTSA provides a federal framework for the protection of trade secrets and allows for civil lawsuits in federal courts. It defines Trade secrets as information that derives independent economic value from not being generally known or readily ascertainable and is subject to reasonable measures to keep it secret. The remedies for infringement of trade secrets are Injunctive relief, damages for actual loss and unjust enrichment, and, in cases of willful and malicious misappropriation, exemplary damages and attorney's fees. The Act also allows for the seizure of property to prevent the dissemination of trade secrets in extraordinary circumstances. It includes protection to whistleblowers i.e. Immunity for individuals who disclose trade secrets to government officials or attorneys for the purpose of reporting or investigating suspected violations of law.

State Law: Uniform Trade Secrets Act (UTSA)

Most states have adopted the UTSA, with some variations. The UTSA provides a model for trade secret protection that includes, a wide range of information types (e.g., formulas, patterns, compilations, programs, devices, methods, techniques, or processes) that provide economic value from being kept secret. Similar to the DTSA, including injunctive relief, damages for actual loss and unjust enrichment, and punitive damages for willful and malicious misappropriation. The acquisition, disclosure, or use of a trade secret through improper means.

Key Concepts in Trade Secret Law

Reasonable measures to protect secrecy: The owner of a trade secret must take reasonable steps to keep the information confidential. This can include physical security measures, non-disclosure agreements (NDAs), and limiting access to the information.

Independent Economic Value: The trade secret must provide a competitive advantage because it is not generally known or readily ascertainable by others.

Improper Means: Acquisition of trade secrets through theft, bribery, misrepresentation, breach of duty, or espionage is considered misappropriation.

Enforcement and Litigation

Trade secret owners can file civil lawsuits to seek remedies for misappropriation. In some cases, particularly egregious acts of trade secret theft can be prosecuted under federal criminal statutes such as the Economic Espionage Act (EEA).

International Considerations: Companies operating internationally must be aware of trade secret laws in other jurisdictions, which can vary significantly.²¹ Enforcement of trade secret protection can be challenging in cross-border situations, necessitating international legal strategies and cooperation.²²

Practical Steps for Protection

- **Employee Training:** Educate employees about the importance of protecting trade secrets and use NDAs and non-compete agreements where appropriate.
- **Monitor and Enforce:** Regularly review protection measures and take action against potential breaches.

Conclusion

So, based on above discussion regarding trade secret laws in various Asian countries and USA, it can be concluded that the definition of trade secrets as such is very much similar in all these state's jurisdiction, difference lies in their legal framework, enforcement mechanisms, cultural differences, and practical measures for business.

Legal Framework

United States- (Federal & State Laws) Trade secret protection in the U.S. is governed by both federal law (primarily the Defend Trade Secrets Act of 2016) and state laws (mostly modelled after the Uniform Trade Secrets Act). The DTSA allows for civil lawsuits in federal courts, providing robust legal remedies including injunctions, damages, and even seizure orders in extreme cases. It also includes provisions to protect whistleblowers who disclose trade secrets to report legal violations. Whereas, in Asian Countries-Trade secret laws vary widely across Asian countries. Some countries have well-developed legal frameworks, while others are still developing their intellectual property laws. Country specific laws, China-Governed by the Anti-Unfair Competition Law and the Civil Code. China has been strengthening its trade secret protections in recent years. Japan-Governed by the Unfair Competition Prevention Act. Japan has robust protection and enforcement mechanisms. South-Korea-Trade secrets are protected under the Unfair Competition Prevention and Trade Secret Protection Act. India-Lacks a specific trade secret law; protections are derived from contract law, common law principles, and specific statutes like the Information Technology Act. Singapore-Trade secrets are protected under common law principles of breach of confidence.

Enforcement Mechanisms- In USA Trade secret misappropriation can be pursued in both federal and state courts. The U.S. legal system provides strong enforcement mechanisms, including significant monetary damages and injunctions. Severe cases of trade secret theft can be prosecuted under federal criminal statutes like the Economic Espionage Act. Whereas, in Asian countries, Enforcement effectiveness varies. Countries like Japan and South Korea have effective enforcement mechanisms, while others like India may face challenges due to slower judicial processes and less specialized IP courts. In some countries, such as China, administrative actions can be taken alongside or instead of judicial actions.

Cultural and Practical Considerations

In United States, businesses typically have high awareness of trade secret protection and compliance due to the strong legal framework and enforcement. The U.S. places a strong emphasis on protecting intellectual property to foster innovation and competition. Whereas, in Asian countries, Awareness and compliance with trade secret laws vary. Countries with more developed legal systems, like Japan and South Korea, have higher awareness and compliance. In some countries, cultural attitudes towards intellectual property may influence the effectiveness of trade secret protections. For example, the concept of proprietary information might be less ingrained in business practices in certain regions. Some countries, especially China, have been making significant efforts to strengthen IP laws and enforcement as part of broader economic and legal reforms.

Practical Measures for Businesses

In USA Use of non-disclosure agreements (NDAs), non-compete clauses, and robust employment contracts. Strong emphasis on both physical and digital security measures to protect trade secrets. Whereas, in Asian countries, businesses may need to adapt their trade secret protection strategies to align with local laws and enforcement capabilities. In some countries, engagement with local government authorities and participating in IP protection initiatives can be beneficial.

So, it can be said that U.S. has a well-established and strong framework for trade secret protection, the landscape in Asian countries is more varied. Businesses operating in or with Asian countries must navigate these differences carefully, adapting their strategies to ensure effective protection of their trade secrets across different legal and cultural environments.

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