

Construction of Legal Risk Management and Prevention Mechanism for Enterprises' Overseas Expansion Under the Background of International Trade Friction

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ABSTRACT

Against the backdrop of escalating global trade frictions, companies face increasingly complex legal risks during their overseas expansion, including adapting to international trade rules, policy uncertainties, political risks, and compliance issues. This paper explores how companies can effectively manage and prevent these legal risks abroad, proposing comprehensive strategies from the perspectives of contract management, compliance system establishment, and intellectual property protection. It emphasizes leveraging digital compliance platforms and dynamic legal strategy adjustments to enhance a company's global market legal response capabilities, thereby effectively identifying and mitigating risks, enhancing the compliance and stability of global operations, and supporting the steady development of companies in international markets.

KEYWORDS

International trade friction; Overseas expansion of enterprises; Legal risk management; Contract management; Compliance system; Intellectual property protection

1 Legal risks faced by enterprises in overseas expansion

1.1 Adapt to transnational trade rules

1.1.1 Differences in tariff policies

In the global trade system, tariff policies vary significantly across countries, and under the backdrop of intensifying international trade frictions, the risks brought by these differences are more pronounced. Taking Sino-US trade as an example, in 2023, the US imposed Section 301 tariffs on about \$370 billion worth of goods from China, with the highest rate reaching 25%, while China's counter-tariff measures covered approximately \$110 billion worth of goods. In 2025, uncertainties remain regarding the US government's trade policies toward certain countries, and Chinese companies operating overseas need to pay attention to changes in relevant tariff policies. Such policy differences and frequent adjustments compel companies to invest substantial resources in compliance and adaptation. Tariff rates for the same product can differ by several times across different countries, and tariff policies are subject to frequent adjustments based on international trade dynamics^[1].

1.1.2 Complexity of international agreements

As free trade zones and multilateral trade agreements continue to evolve, international trade rules have become increasingly complex. Companies not only need to comply with the domestic laws of their target markets but also stay updated on new regulations in various international treaties. For example, the Regional Comprehensive Economic Partnership (RCEP) has detailed provisions on rules of origin and trade facilitation. If companies are unfamiliar with these regulations, they may encounter obstacles when customs clear their goods. When selecting markets, companies must closely monitor how international rules impact local policies to ensure all business activities comply with relevant legal requirements. A lack of deep understanding and effective response to these rules can lead to high tariffs, cargo detention, or even bans on entry.

1.2 Policy uncertainty and political risk

In emerging markets, policy uncertainty stands out prominently. Changes in international relations, shifts in the national political environment, or changes in government can all lead to sudden policy adjustments. These adjustments may affect key factors such as market access, tax policies, and labor costs, and could even result in market closures or restrictions in certain industries. For companies, these risks not only include fluctuations in the market environment but also major challenges directly related to legal compliance, contract fulfillment, and business sustainability. More seriously, political instability can trigger social unrest, threatening the safety of personnel and assets, and preventing companies from operating normally.

1.3 Compliance risk

Companies operating overseas involve multiple business segments and legal requirements in different regions. If the internal compliance management system is inadequate, it is highly susceptible to violations. For instance, in anti-corruption compliance, some countries have extremely strict definitions and penalties for commercial bribery. If company employees are unaware of local regulations, they may cause significant fines and legal actions due to improper behavior. Moreover, with the acceleration of digitalization, data protection has become a global focus. Data protection laws vary significantly across different countries and regions. For example, the EU's General Data Protection Regulation (GDPR) imposes stringent rules on data collection, storage, use, and cross-border transmission. Companies that violate these regulations face substantial fines. When Chinese companies expand overseas, if they continue to apply domestic data management practices, they can easily fall into difficulties regarding data protection compliance.

2 Legal risk management strategies and methods

2.1 Contract management and risk prevention

Enterprises should clarify the rights and obligations of both parties to the contract, and ensure that each clause meets the legal requirements of the target market, especially in dispute resolution, liability for breach of contract and compensation clauses. Enterprises can hire local legal experts or lawyers to review the legality of the contract terms, so as to avoid disputes caused by insufficient legal adaptability^[2].

The contract should include reasonable risk response clauses, such as force majeure clauses and price adjustment clauses. At the same time, clearly define dispute resolution methods, giving priority to international arbitration due to its advantages of professionalism, efficiency, and confidentiality. For example, specify the arbitration institution and applicable law in the contract to ensure that when disputes arise, the company can resolve them quickly and effectively according to the terms of the contract, minimizing losses. Additionally, by setting up reasonable exemption clauses, companies can prevent liability issues caused by force majeure events.

Contract management should also establish a dynamic model, regularly reviewing and evaluating existing contracts. As the international market environment and laws change, contract terms should be adjusted in a timely manner. For example, if tax policies in target markets change, the tax liability clauses in the contract should be adjusted accordingly; if exchange rates fluctuate significantly, provisions for exchange rate adjustments can be negotiated to protect corporate interests. Taking Huawei's response to U.S. export controls as an example, Huawei fully considers the potential impact of U.S. regulatory policies when signing contracts with suppliers and customers. Flexible clauses are included in the contract, such as stipulating circumstances for exemption from liability and adjustments to supply methods when policy changes render the contract unenforceable, effectively reducing legal risks.

2.2 Establishment and improvement of compliance system

Companies should establish a dedicated compliance department responsible for reviewing the compliance of all business activities and maintaining close cooperation with legal advisors in different regions to promptly obtain information on local legal policy changes, providing precise compliance guidance for corporate operations. The compliance department should develop a compliance manual based on the company's business scope and target market characteristics, breaking down compliance requirements into specific operational procedures. For example, it can establish import and export compliance processes, clarifying operational norms for customs declaration, inspection, and other stages; develop anti-corruption compliance guidelines to regulate employee business conduct; incorporate the compliance manual into the employee training system to ensure that employees are familiar with and comply with relevant regulations. Companies should also establish a compliance audit mechanism to regularly audit and evaluate compliance efforts, ensuring the effectiveness and timeliness of the compliance system. During overseas expansion, especially in regions with political risks and unstable legal policies, companies can leverage big data and artificial intelligence technologies for risk warnings and real-time monitoring of changes in laws and regulations. As shown in Figure 1:

2.3 Intellectual property protection and legal guarantee

Companies must conduct a comprehensive evaluation of the core technologies, trademarks, patents, and other intellectual properties involved in their products and technologies, clearly defining the scope and value of protection. In overseas markets, companies should register and file their intellectual property according to the legal requirements of each country, ensuring that patents, trademarks, and other intellectual properties are legally protected in target markets.

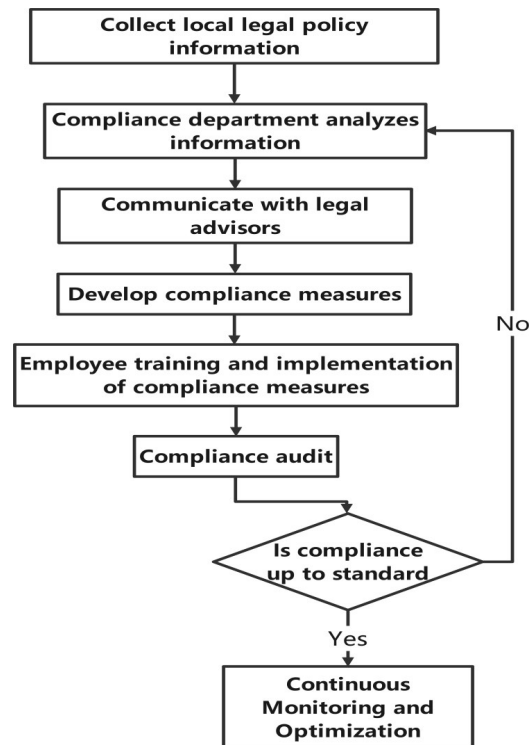


Figure 1 Process diagram of compliance management system

To achieve this, companies can perform patent searches and trademark registrations in major markets to ensure the exclusivity of their intellectual property. In fact, companies can leverage global intellectual property protection mechanisms, such as the Patent Cooperation Treaty (PCT) and the Madrid Agreement's provisions on trademarks, to enhance the coverage of intellectual property protection. Companies should establish dedicated intellectual property monitoring teams to closely monitor market dynamics and promptly identify infringement activities. Once an infringement occurs, they should swiftly initiate the rights protection process, choosing appropriate legal avenues based on the nature of the infringement, such as negotiation, mediation, arbitration, or litigation, to safeguard the company's legitimate interests.

3 Construction and implementation of prevention mechanism

3.1 Risk assessment and early warning mechanism

Enterprises should establish a comprehensive risk assessment framework to regularly analyze changes in the political, legal, and economic environments of various markets, with particular attention to changes in laws and policies in target markets as well as fluctuations in international relations ^[3]. Specifically, they can rely on big data analysis and artificial intelligence technologies to dynamically track regulations in relevant markets and regularly update their legal risk databases to ensure that the company can quickly respond to potential risk events. Enterprises should develop a detailed risk assessment indicator system, breaking down market risks, compliance risks, and operational risks into quantifiable data, such as the rate of change in market access barriers, the number of compliance violations, and the growth rate of operating costs. By regularly reviewing and assessing these indicators, potential risks can be prioritized, ranked, and graded to determine the priority of risk response measures. For high-risk regions or countries, enterprises can establish regional risk assessment teams. Team members should have extensive local market experience and professional knowledge, with a deep understanding of local laws, policies, and cultural customs. They should regularly conduct specialized assessments of legal risks in these regions and provide targeted recommendations for corporate decision-making. See Table 1 for details:

3.2 Legal team and cross-border cooperation

Companies should form a diversified legal team based on the characteristics of overseas markets. The team should include legal experts with international experience, lawyers familiar with local laws, and internal legal personnel. This team must not only have a solid foundation in domestic law but also possess a global perspective and a deep

Table 1 Legal Risk Assessment Indicator System

Primary indicators	Secondary Indicators	appraisal procedure
government risk	Frequency of policy changes	Count the number of policy adjustments in recent three years
	Government stability score	Refer to the rating of international authoritative institutions
Compliance risk	Number of violations	Count the violations of the enterprise in the past year
	Fine amount threshold.	Set according to industry standards
Operational risk	Growth rate of operating costs.	Compare annual cost data.
	Number of supply chain disruptions	Analyze the frequency of related events

understanding of the legal environment in target markets, enabling them to handle cross-border issues involving different legal systems. Companies should establish cross-border legal cooperation mechanisms, especially in key markets, by forming long-term partnerships with local legal institutions and law firms to ensure swift access to legal support in the event of local legal disputes. Cross-border legal cooperation should also encompass a network of legal contacts between multinational corporations, participation in international legal forums and industry associations, to obtain the latest international legal information and best practices.

3.3 Legal protection for overseas investment

When companies engage in overseas investment, they should comprehensively study the legal environment of the target country, including investment regulations, foreign investment policies, tax policies, and environmental protection laws. Specifically, companies should analyze the country's foreign investment laws, industry access restrictions, and land use rights to ensure that investment projects are fully protected within the legal framework. By optimizing their investment structure, companies can minimize legal risks. For example, they can reduce exposure to legal risks by establishing joint ventures, acquiring local enterprises, or participating in mergers and acquisitions, using joint ventures to mitigate unilateral legal risks. Companies should also clearly define risk-sharing clauses in investment agreements and set up dedicated risk funds to address unforeseen legal issues. Additionally, companies can use appropriate legal tools, such as bilateral investment treaties (BITs) and bilateral or multilateral investment agreements, to ensure that their investments are legally protected in overseas markets, especially in cases of investment disputes, tax controversies, and expropriation.

4 Legal risk management culture and training

4.1 Improve legal awareness and risk prevention culture

Companies can establish a legal and compliance culture to promote the internalization of legal risk management concepts^[4]. This can start with management, regularly organizing legal risk management seminars to discuss the latest international legal changes, market trends, and external environmental changes that may impact company operations. Companies should encourage leadership and key managers to become advocates for compliance culture, ensuring that legal and compliance considerations are a critical part of decision-making processes, with legal awareness permeating every decision. Companies should develop clear legal risk prevention strategies, including employee conduct guidelines, compliance procedures, risk identification and feedback mechanisms, and incorporate internal and external legal advisors into strategic planning and daily operations. This provides timely and professional legal advice for corporate decisions and business activities, ensuring that companies can reduce legal risks when handling complex matters such as cross-border investments and international mergers and acquisitions.

4.2 Legal training and employee compliance awareness.

Companies should provide employees with multi-level and multi-dimensional legal training, especially specialized training on compliance issues in key areas such as international trade, intellectual property, and antitrust. These training programs should be tailored to the needs and responsibilities of different departments. The legal team needs to master the details and scope of international laws, while marketing and procurement departments should focus on learning how to avoid violating antitrust laws and unfair competition. Companies can combine online and offline training methods, conduct legal courses, and analyze real cases to enhance the relevance and practicality of the training. Companies can also establish compliance reward and punishment systems to encourage employees to voluntarily comply with compliance requirements, ensuring that the outcomes of the training are translated into concrete actions. After training, companies should regularly assess legal compliance to ensure that employees can flexibly apply their knowledge and identify and avoid potential legal risks in their daily work.

5 International cooperation and collaboration on legal risk management

5.1 Legal coordination between countries and regions

Companies need to closely monitor the legal systems of their target markets and communicate effectively with legal institutions in host countries and other relevant nations to ensure compliance with laws and regulations on a global scale. To this end, companies can rely on existing international legal frameworks in international trade and actively participate in the negotiation and implementation of international agreements and bilateral treaties. Companies should be familiar with and comply with the relevant provisions of the World Trade Organization (WTO) and other regional economic cooperation frameworks, such as the Regional Comprehensive Economic Partnership (RCEP) and Free Trade Agreements (FTAs). Under these international cooperation frameworks, companies not only gain a stable legal environment but also reduce legal risks in cross-border operations by utilizing dispute resolution mechanisms. Companies can engage in bilateral and multilateral consultations with their home governments and target market governments, participate in the formulation of cross-border legal policies, and promote international regulatory consistency in areas such as environmental protection, taxation, and intellectual property.

5.2 Influence of international organizations and industry standards

When international organizations set standards and regulations in areas such as international trade, investment, finance, and arbitration, they take into account the differences in global culture and economic systems to provide legal compliance protection for cross-border transactions^[5]. Companies engaged in multinational operations should actively adhere to these international standards to ensure their business operations comply with global compliance requirements. Industry norms play a crucial role in the legal management of specific industries. By issuing industry guidelines and best practices, trade associations help standardize behavior and prevent potential legal risks. Compliance requirements in the international financial sector and industry standards in areas like cross-border mergers and data protection offer unified operational guidelines for companies. Companies should establish mechanisms to align with international organizations and industry standards, regularly assess the consistency of their operations with international standards, and ensure they operate within a compliant legal framework in the global market.

6. Innovative path of enterprise legal risk prevention

6.1 Digital and technology-driven legal compliance

Companies can establish intelligent compliance management platforms to systematize legal compliance data, achieving comprehensive risk monitoring and real-time tracking. By leveraging artificial intelligence and big data analysis, companies can monitor changes in global laws and regulations in real time. They can set up smart early warning systems to promptly identify potential legal risks that could impact their operations. The system can automatically scan legal dynamics involving countries or regions, analyze potential legal conflicts and market changes, and predict potential legal risks through data models. In terms of blockchain technology applications, taking cross-border contract management as an example, companies can use smart contracts to automatically execute terms. When the conditions stipulated in the contract are met, the smart contract automatically triggers relevant actions, such as automatic payments and delivery of goods. This not only improves transaction efficiency but also enhances the transparency and security of contract management, ensuring that contract terms in cross-border transactions cannot be tampered with and are traceable, further reducing legal risks caused by contract disputes.

6.2 Dynamic adjustment and flexible response to legal strategies

Companies should establish a rapid response mechanism to ensure they can promptly adjust their legal strategies when legal risks arise. As international political situations change, policies and regulations in certain markets may undergo significant adjustments. Companies can introduce the "scenario simulation" method, using simulated policy change scenarios to develop emergency plans. For example, simulating a sudden increase in tariffs or restrictions on foreign investment in a country, companies can plan ahead for response measures, such as adjusting supply chain layouts or finding alternative markets. Companies should regularly conduct legal risk reviews and strategic assessments to ensure their legal strategies remain aligned with changes in the market environment. On a quarterly or annual basis, companies can perform comprehensive legal risk assessments, reviewing current compliance status and adjusting compliance policies and management measures according to changes in the legal environment and business needs. Companies should also have the capability to respond to unexpected legal risks.

7 Conclusion

In the face of increasingly severe global trade frictions, the legal risks faced by companies expanding overseas have become more complex and diverse. By establishing a comprehensive legal risk management mechanism, enhancing compliance training, and raising legal awareness, companies can effectively reduce potential risks arising from international trade frictions. Leveraging technological tools and dynamic legal strategies, companies can swiftly respond to legal changes in the global market, ensuring the stability of cross-border operations. A systematic approach to legal risk management not only helps improve the compliance and stability of global operations but also enhances a company's competitiveness in a complex international environment, enabling long-term sustainable development and steady progress on the global economic stage.

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