

Intellectual Property Risks of Transnational Corporate Investment

Yizhou Wang

School of Intellectual Property, East China University of Political Science and Law, Shanghai, China
13311823922@163.com

Abstract: In the context of economic integration and trade globalization, the scale of multinational enterprises' overseas investments has demonstrated a significant expansion. Among the risks faced by multinational enterprises in cross-border investments, intellectual property (IP) risks—characterized by their intangible nature, temporality, and territoriality—constitute a critical yet often overlooked component of risk management. For multinational enterprises engaged in overseas investments, thorough research and mitigation of IP risks can substantially reduce investment uncertainties while ensuring effective protection and utilization of their products in foreign markets. Against the backdrop of copyright, patent, and trademark rights—the three pillars of intellectual property—this paper employs a methodology combining literature review and case studies to analyze the diverse IP-related legal risks multinational enterprises may encounter during overseas investments. Following systematic synthesis and evaluation, actionable recommendations for risk mitigation are proposed. The study concludes by summarizing key findings, contributions, research limitations, and future directions. Through this research, the author aims to provide novel theoretical and practical insights into IP risk mitigation for multinational enterprises, thereby fostering sustainable development in this field and offering valuable references for corporate decision-makers.

Keywords: Intellectual property rights, transnational investment, risk management, compliance recommendations

1. Introduction

In the contemporary globalized economy, the scale and scope of multinational enterprises' investments continue to expand. According to data from the Ministry of Commerce of the People's Republic of China, China's non-financial outward direct investment reached RMB 143.85 billion in 2024, marking a 10.5% year-on-year increase. Conversely, a joint survey by the US-China Business Council indicates that over 53% of surveyed American enterprises plan to augment their investments in China by 2025, including industry leaders in technology such as Tesla [1]. Among the multifaceted challenges confronting multinational enterprises in foreign investments, intellectual property (IP) has emerged as a pivotal factor in corporate competition. IP-related issues exert profound impacts on multinational enterprises' strategic planning and operational sustainability, with the potential to jeopardize corporate viability. For instance, in 1999, the renowned Chinese brand Hisense encountered a malicious preemptive registration of its trademark "HiSense" by Bosch-Siemens in

Germany. This act forced Hisense to withdraw from the German market due to trademark infringement risks, inflicting immeasurable losses on its global expansion strategy [2].

The substantial influence of IP on multinational enterprises' international investments stems from its distinct characteristics compared to traditional forms of capital. Drawing on the 18th-century German scholar Pikardi's theory, intellectual property constitutes rights over all knowledge-based activities, distinguished by unique attributes such as intangibility, territoriality, and temporality [3]. First, as an intangible asset, IP exists independently of physical embodiment. Unlike tangible property, IP is neither depleted through use nor extinguished by legal delivery, rendering enterprises vulnerable to infringement risks absent proactive IP due diligence and strategic planning. The Hisense case exemplifies such risks, where insufficient IP foresight led to trademark preemption and subsequent litigation.

Second, IP protection is inherently territorial and time-bound. National legal frameworks maintain independent IP registries, safeguarding only those rights formally recognized within their jurisdictions. Absent international treaties or conventions, IP rights unregistered in a specific jurisdiction remain unprotected therein. This territoriality underpins cross-border IP disputes, including the Hisense-Bosch-Siemens conflict. Temporality further complicates IP risks: under China's Patent Law, for example, patent protection durations vary by type (10, 15, or 20 years), after which rights enter the public domain [4]. Similarly, Japan's patent regime stipulates protection periods of 20 or 25 years [5]. Such jurisdictional and temporal variances amplify risks for multinational enterprises in overseas markets.

IP-related risks in international investments predominantly manifest in copyright, patent, and trademark disputes. A notable example includes AstraZeneca's litigation with Pfizer's subsidiary Wyeth, wherein the former was ordered to pay USD 107.5 million in damages for infringing two patents related to the lung cancer drug Tagrisso. This paper focuses on IP risks in copyright, patent, and trademark domains, synthesizing academic literature and case law to propose pragmatic risk mitigation strategies for multinational enterprises.

2. IP risks in multinational enterprises' international investments

2.1. Trademark right risks

Trademarks—symbols identifying a product's origin, materials, manufacturing methods, quality, or other distinctive attributes—are typically composed of textual, graphical, alphanumeric, three-dimensional, color, or auditory elements [6]. Territorial disparities in trademark regimes may precipitate risks such as preemptive registrations and institutional misalignment. Furthermore, using trademarks identical or confusingly similar to existing local registrations may trigger infringement claims. Notably, in original equipment manufacturing (OEM) arrangements, failure to verify clients' trademark ownership may result in joint liability for infringement.

2.1.1. Trademark preemptive registration risks

In multinational enterprises' overseas investments, trademark preemptive registration refers to the act of registering and using trademarks identical or highly similar to those of a target enterprise in the target market prior to its entry, leveraging the territorial nature of trademark protection laws to obstruct the enterprise's market expansion. For multinational enterprises, given that most jurisdictions adopt either a "first-to-file" or "first-to-use" trademark registration system, failure to secure trademark registration in a foreign market may result in preemptive registration by local entities, thereby blocking the enterprise's access to that market. Post-preemptive registration, continued use of the original trademark may expose the enterprise to infringement lawsuits and substantial liability for damages. Protracted litigation processes may also derail corporate development plans. In many cases,

enterprises are compelled to pay exorbitant "ransom fees" to reclaim trademark rights. A prominent example is the 2000 Hisense vs. Bosch-Siemens trademark dispute. Despite prior exports to Europe, Hisense had neglected to register its well-known trademark "HiSense" in Germany and EU countries, enabling Bosch-Siemens Household Appliances (BSH) to preemptively register the mark. In 2004, BSH demanded €40 million (approximately RMB 320 million) for trademark transfer and sued Hisense for infringement in Germany, seeking destruction of exported goods. This severely damaged Hisense's reputation and global strategy. Ultimately, through Chinese government mediation, Hisense secured market entry by paying a reduced transfer fee and establishing an OEM partnership with BSH.

The prevalence of trademark preemptive registration risks often stems from multinational enterprises' insufficient understanding of host countries' trademark regimes or lack of proactive registration strategies. According to the 2023 International Trademark Monitoring and Risk Report by the China Trademark Association, approximately 59% of Chinese enterprises fail to complete trademark registrations before entering new markets, leading to 38 high-profile cases of overseas trademark preemption in 2023 alone.

2.1.2. Trademark infringement risks

The use of trademarks identical or confusingly similar to existing local registrations in foreign jurisdictions may trigger infringement claims. A notable risk arises in original equipment manufacturing (OEM) arrangements, where multinational enterprises commission overseas factories to produce goods bearing their trademarks. Under most legal frameworks, OEM activities constitute "use" of trademarks. For instance, Article 48 of China's Trademark Law defines trademark use as applying a mark to goods or services to indicate their origin [6]. In the landmark *Honda Motor Co., Ltd. v. Chongqing Hengsheng Group* case, Honda alleged that Myanmar Mei Hua Company's commission of Hengsheng to produce motorcycle parts labeled with "HONDAKIT"—a mark unregistered in China—infringed its registered "HONDA" trademark. After trials across three judicial tiers, the Supreme People's Court ruled that the "HONDAKIT" mark could confuse consumers regarding product origin, and even wholly exported goods risked re-entering the domestic market. Consequently, Hengsheng was ordered to cease infringement and compensate Honda [7].

From Hengsheng's perspective, as an OEM contractor, it bore a duty of care to verify the legitimacy of client-requested trademarks. For Mei Hua, the overseas client, the case underscores the necessity of assessing trademark risks in OEM arrangements, even when products are not sold locally.

2.2. Patent right risks

Patents are generally categorized into three types based on their characteristics: "inventions", "utility models", and "design patents". "Inventions" refer to novel technical solutions for products, methods, or improvements thereof. "Utility models" involve practical technical solutions addressing the shape, structure, or combination of a product. "Design patents" protect new, aesthetically significant designs applicable to industrial use, encompassing the shape, pattern, or combination thereof, including color integration, for a product's entirety or parts [4].

However, it is critical to note that patent classifications and protection frameworks vary across jurisdictions. For instance, Japan's Patent Law recognizes only "invention patents" and "design patents", with differing protection durations compared to China [5]. Such discrepancies expose multinational enterprises to risks of patent invalidation or expiration due to mismatched timelines, potentially stripping legal safeguards for proprietary technologies. Moreover, inadequate international patent filing strategies—rooted in the territorial nature of IP rights—may leave core technologies unprotected in unregistered jurisdictions, enabling unauthorized exploitation and irreversible competitive losses. Unauthorized use of patented technologies or designs may also incur

severe penalties, including injunctions and substantial damages. A notable example is Apple's 2014 litigation against Samsung, where U.S. courts ordered Samsung to pay USD 530 million for infringing smartphone design patents, including slide-to-unlock and rounded rectangle features.

Additionally, multinational enterprises face "patent expropriation risks". Patent expropriation refers to a state's compulsory acquisition of patent rights for national defense, public health, or economic development purposes, with appropriate compensation determined by patent authorities. While expropriation transfers patent ownership to the state, the patent itself remains valid [8]. For enterprises, forced licensing under such measures may eliminate royalty revenues and erode competitive advantages by enabling rival firms to adopt the technology.

2.3. Copyright risks

Copyright protects original literary, artistic, and scientific works expressed in tangible forms [9]. In international investments, copyright risks primarily arise from:

Firstly, "Disputes over works made for hire", driven by jurisdictional differences in registration systems and protection scopes;

Secondly, "Ownership verification and authorization chain risks" in cross-border licensing transactions.

Unauthorized use of third-party content (e.g., images, music, fonts) in overseas operations may trigger infringement claims. Notably, OEM contractors using infringing materials in promotional content may implicate commissioning parties in joint liability.

2.3.1. Works made for hire disputes

Works made for hire refer to creations produced by employees within the scope of employment. Under China's Copyright Law (Article 18), authorship generally resides with the creator, though employers retain priority usage rights within business operations. For a specified period post-creation, employees may not license third parties to use the work in ways identical to the employer without authorization. Exceptions include:

Firstly, works primarily created using an employer's resources and for which the employer assumes responsibility (e.g., engineering designs, software, maps);

Secondly, works explicitly assigned to employers via statutory provisions or contractual agreements [9].

Such disputes frequently arise in multinational enterprises due to divergent national standards for defining "employment scope." For example, while U.S. law adopts the "work-made-for-hire doctrine" (vesting copyright in employers for creations within employment duties), China's default rule grants authorship to employees absent contractual overrides [10]. Consequently, works created by Chinese employees of U.S. subsidiaries may trigger cross-jurisdictional ownership conflicts.

2.3.2. Ownership verification and authorization chain risks

Copyright transactions in international investments—such as film adaptations or software licensing—often involve fragmented documentation, unclear territorial restrictions, or ambiguous sublicensing terms, heightening infringement risks. For instance, incomplete inheritance records or unauthenticated transfers within authorization chains may invalidate licenses. Similarly, undefined territorial or usage scopes in contracts may lead to unauthorized exploitation.

3. Recommendations for IP risk management in multinational investments

Based on the analysis above, IP risks in multinational investments may be categorized as: "Jurisdictional divergence risks" (e.g., territorial disparities in IP protection); "Strategic oversight risks" (e.g., inadequate IP portfolio planning); "Contractual risks" (e.g., flawed licensing agreements).

To mitigate these risks, the following measures are proposed:

3.1. Conduct comprehensive pre-investment due diligence and proactive IP planning

To address jurisdictional disparities (e.g., works made for hire disputes or trademark preemption), enterprises must:

Firstly, Analyze host countries' IP laws and international treaties: Develop tailored IP strategies by studying local frameworks. For example, Chinese firms investing in the U.S. should preemptively clarify copyright ownership for works made for hire in employment contracts to align with U.S. doctrine.

Secondly, Secure IP registrations proactively: File trademarks and patents in target markets to preempt squatters. Had Hisense registered "HiSense" in Germany preemptively, its dispute with BSH could have been avoided.

Additionally, enterprises should establish global IP intelligence databases to streamline the monitoring of patent, trademark, and copyright registrations across jurisdictions, thereby preemptively mitigating risks like preemptive registrations. For example, Procter & Gamble (P&G), by 2007, had registered over 37,500 patents and 140,000 trademarks across 100+ countries to safeguard its 300+ global brands [11]. Such proactive IP strategies have underpinned P&G's sustained revenue growth for decades.

3.2. Vigilance against infringement and expropriation risks during investment

To address risks such as patent expropriation or OEM-related infringement, enterprises must maintain vigilance throughout the investment lifecycle, closely monitoring host countries' political climates and infringement vulnerabilities. For instance, prior to initiating OEM production, enterprises should assess whether contractors' jurisdictions pose infringement risks. If so, alternative partners or licensing agreements should be pursued to mitigate liability.

3.3. Scrutinize IP licensing agreements to eliminate contractual risks

Copyright authorization chains necessitate meticulous review of licensing contracts, including historical agreements, to identify gaps such as un-notarized inheritance of rights or unresolved ownership disputes. Territorial or usage restrictions must be explicitly defined to prevent unauthorized exploitation.

3.4. Engage specialized legal counsel for IP dispute resolution

Given the intangible, territorial, and temporal complexities of IP disputes—which differ markedly from traditional commercial litigation—enterprises should retain experienced IP attorneys to leverage bilateral/multilateral treaties and domestic legal frameworks. Professional counsel enhances the likelihood of favorable outcomes in cross-border disputes.

4. Conclusion

This paper examines the unique intellectual property risks confronting multinational enterprises in international investments, emphasizing distinctions arising from IP's intangible, territorial, and

temporal attributes. Through analysis of copyright, patent, and trademark risks, four strategic recommendations are proposed: pre-investment due diligence and proactive IP registration; continuous monitoring of infringement and expropriation risks; rigorous vetting of licensing agreements; engagement of specialized legal expertise in disputes.

While this study focuses on predominant IP risks, sector-specific variations in legal frameworks and mitigation strategies warrant further exploration. As global technological advancement and economic integration accelerate, IP risk management will increasingly underpin the sustainability of multinational enterprises' overseas investments. Future research should address evolving challenges in emerging markets and digital economies.

References

- [1] US-China Business Council. 2025 China Business Climate Survey Report. www.amchamchina.org. Accessed January 23, 2025.
- [2] Shanghai International Trade IP Rights Protection Platform. *Hisense v. Siemens Trademark Dispute Case*. <http://ywtb.shmh.gov.cn/index/index/anli.html?id=457>. Accessed December 15, 2014.
- [3] Zhong, L. L. (2015). *Preliminary Study on IP Protection for Multinational Enterprises*. Legal Vision.
- [4] *Patent Law of the People's Republic of China (2020 Amendment)*, Arts. 2, 42.
- [5] *Japanese Patent Act (Act No. 121 of 2014)*, Art. 67.
- [6] *Trademark Law of the People's Republic of China (2019 Amendment)*, Art. 8.
- [7] *Supreme People's Court of China. Civil Judgment (2019) Zui Gao Fa Min Zai No. 138*.
- [8] Zou, Y. (1991). *Dictionary of Jurisprudence*. China University of Political Science and Law Press.
- [9] *Copyright Law of the People's Republic of China (2020 Amendment)*, Art. 3.
- [10] *U.S. Copyright Act*, 17 U.S.C. § 201(b).
- [11] Lou, B. (2008). *IP Protection Strategies of Multinational Enterprises in China*. China University of Political Science and Law Press.