

Policy Brief

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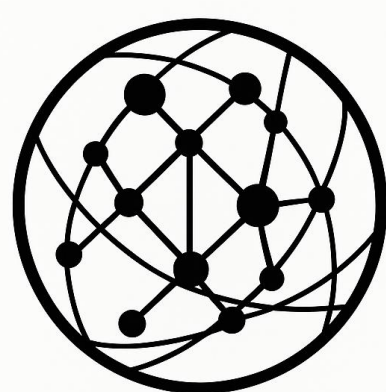
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Governing Fragmentation:

Jurisdictional Competition and China's Counter-Extraterritoriality Framework

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Key Judgments

- **Jurisdiction is emerging as a system-level domain of strategic competition.** China's framework challenges the presumption of unilateral extraterritorial enforcement by reasserting sovereign authority over the legitimacy of foreign legal application.
- **Global compliance is undergoing structural fragmentation.** Firms increasingly face irreconcilable legal obligations across jurisdictions, transforming compliance from a technical function into a problem of strategic alignment.
- **Legal instruments are evolving into tools of non-kinetic competition.** Blocking mechanisms, prohibition orders, and countermeasures function as instruments of coercion and deterrence within an expanding landscape of regulatory confrontation.
- **Jurisdictional conflict is generating cross-domain systemic spillovers.** Legal tensions propagate into financial systems, trade networks, and data governance regimes, reinforcing systemic coupling across domains.
- **The global order is shifting from convergence to regime coexistence.** Competing legal systems are consolidating into parallel, non-hierarchical structures without a central coordinating authority.

Executive Summary

China's Regulation on Countering Unjustified Extraterritorial Jurisdiction (hereafter "the Regulation") marks a decisive escalation in the global contest over legal authority. By institutionalizing mechanisms to identify, prohibit, and counter such measures, it shifts China's approach from reactive response to structured legal resistance.

This development reflects a broader structural transformation: **jurisdiction is no longer embedded in shared norms and hierarchical arrangements, but is emerging as a domain of strategic competition in which states assert and contest legal authority as an instrument of power.**

The immediate consequence is the fragmentation of global compliance. Firms and financial institutions face increasingly incompatible legal obligations, transforming compliance from a technical function into a strategic constraint. These pressures extend beyond the legal domain, reshaping financial systems, reconfiguring trade networks, and constraining cross-border data flows.

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The Regulation contributes to a multi-centered global system in which competing legal frameworks coexist without a central arbiter, increasing systemic friction and embedding legal conflict within the structure of global economic interaction.

The central implication is clear. Fragmentation is not a temporary disruption, but a structural feature of an emerging international order defined by competing legal sovereignties.

1. Legal Foundations: Contesting Jurisdictional Authority

The Regulation establishes a formalized process for identifying what it defines as “unjustified extraterritorial application of foreign legislation and other measures.” This determination is based on a composite assessment of consistency with international law, jurisdictional connection, and impact on sovereignty and national interests.

The significance of this framework lies not in its specific criteria, but in the structural shift it represents. The authority to assess the legitimacy of extraterritorial application is effectively relocated from the international domain to the sovereign state, replacing implicit acceptance with an explicit process of sovereign evaluation.

Historically, extraterritorial enforcement, particularly by the United States, has relied on expansive interpretations of jurisdiction, reinforced by financial centrality and institutional reach. Within this system, such claims have often functioned as effectively given.

The Regulation directly challenges this presumption. By institutionalizing a domestic mechanism to assess and counter unjustified extraterritorial application, it reframes such practices not as neutral extensions of legal authority, but as claims subject to political and legal contestation.

In this sense, jurisdiction is no longer merely applied. It is actively evaluated, contested, and, where necessary, denied.

1.1 Blocking as Legal Strategy

The Regulation prohibits domestic entities from complying with designated foreign measures, subject to limited administrative exemptions. It establishes a structured mechanism of prohibition and non-compliance, reversing the traditional direction of legal pressure by shifting the burden from firms adapting to external rules to the state determining whether such measures are to be recognized or observed.

What distinguishes this framework from earlier blocking statutes is not only its prohibitive function, but its institutional integration. It combines assessment, prohibition orders, and countermeasures within a coordinated system, transforming a traditionally defensive instrument into an operational tool of governance.

The result is not passive non-recognition, but active jurisdictional counter-assertion. Rather than absorbing external legal pressure, the system redirects and, where necessary, counteracts it, embedding legal resistance within a broader framework of state capacity and regulatory control.

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1.2 From Legal Pluralism to Legal Fragmentation

The coexistence of competing jurisdictional claims creates a structural condition in which multiple legal systems simultaneously assert authority over the same activity. Under these conditions, compliance is no longer a matter of reconciling overlapping rules, but of managing incompatibility, where adherence to one system may violate another.

This dynamic exceeds traditional conflict-of-laws frameworks, which assume the possibility of coordination or hierarchical resolution. Instead, it reflects a deeper transformation in which legal systems operate as instruments of geopolitical competition.

Jurisdiction is no longer a technical allocation of authority, but a contested space through which states project power, defend sovereignty, and shape the rules of global interaction.

In this sense, jurisdiction is no longer assumed. It is contested, filtered through sovereign evaluation, and strategically deployed.

2. Policy Implications: Compliance Conflict and State Capacity

2.1. Integrated Enforcement Architecture

The Regulation establishes a vertically integrated enforcement architecture linking administrative coordination, legal prohibition, economic countermeasures, and judicial remedies within a unified operational system. Rather than functioning as isolated instruments, these components reinforce one another, enabling sustained and coordinated responses to unjustified extraterritorial application of foreign legislation and other measures.

This level of integration expands state capacity beyond reactive enforcement. By aligning legal authority with administrative execution and economic leverage, the framework enables consistent, scalable, and long-term regulatory action, transforming legal instruments into tools of structured confrontation.

2.2 The End of Unified Compliance

For multinational firms, this framework fundamentally restructures the compliance environment. What was previously a process of alignment with a dominant global regulatory system is replaced by conditions of irreconcilable divergence across jurisdictions.

In practice, obligations arising from foreign measures, particularly U.S. sanctions regimes, and those imposed under Chinese law become mutually incompatible. Compliance therefore shifts from an optimization problem to a constraint problem, in which no single strategy satisfies all applicable legal requirements simultaneously.

2.3 Corporate Adaptation Under Constraint

Faced with structural incompatibility, firms adopt adaptive strategies that extend beyond legal compliance into geopolitical risk management. These include reorganizing operations across jurisdictions, separating legal entities and supply chains, and selectively reducing exposure in high-risk markets.

At the same time, regulatory and political risk is internalized within corporate decision-making, reshaping how firms assess investment, market access, and long-term positioning under conditions of legal fragmentation.

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2.4 From Compliance to Strategy

The cumulative effect is a redefinition of compliance itself. Compliance is no longer a technical process of adhering to a coherent regulatory system, but a strategic function shaped by competing legal regimes and sovereign assertions of authority.

In this environment, compliance operates as a form of strategic alignment rather than a neutral regulatory requirement.

2.5 Spillover Effects Across Systems

The Regulation generates second-order effects that extend beyond the legal domain, reshaping interactions across financial, commercial, technological, and data governance systems. These effects are interconnected, reflecting the integrated structure of global economic and regulatory networks.

In the financial domain, exposure to jurisdictional risk increases, particularly in transactions reliant on dollar-denominated clearing systems. Firms and financial institutions diversify settlement channels to mitigate vulnerability to extraterritorial application.

In trade and production, supply chains are reconfigured to reduce exposure to conflicting legal regimes. This does not imply full decoupling, but accelerates the emergence of segmented operational structures designed to manage jurisdictional risk.

In data governance, regulatory divergence constrains cross-border data flows, reinforcing trends toward data localization in storage, processing, and oversight.

At the technological level, these pressures contribute to the divergence of platform ecosystems and regulatory standards, reducing interoperability across systems.

These dynamics reinforce systemic coupling: legal interventions in one domain generate cascading effects across others. Firm-level adaptation functions as the primary transmission channel through which these effects scale into broader structural transformation.

3. International System Effects: From Hierarchy to Fragmentation

3.1 Jurisdiction as a Dimension of Power

The Regulation reflects the growing salience of legal authority as a distinct dimension of strategic capability, operating alongside military and economic power. Jurisdiction is no longer a technical legal construct, but a mechanism through which states project influence, shape behavior, and constrain external actors.

Two contrasting models are evident. The United States has historically exercised jurisdiction through network centrality, leveraging its position within global financial systems and institutional architectures to extend the reach of its legal framework. China's approach, by contrast, emphasizes sovereign control combined with counter-regulatory capacity, constructing mechanisms to filter, resist, and, where necessary, counter unjustified extraterritorial application of foreign legislation and other measures.

The interaction of these models does not produce symmetrical competition. Instead, it generates competing architectures of influence grounded in distinct structural logics of power projection and legal authority.

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3.2 The Emergence of a Jurisdictional Regime Complex

As competing approaches interact, the global system evolves toward a jurisdictional “regime complex,” in which multiple legal regimes overlap without hierarchy, rules diverge across jurisdictions, and no single authority can definitively adjudicate conflicts.

Comparable dynamics have emerged in trade and climate governance, where fragmented institutional arrangements coexist without full integration. Their extension into jurisdiction, however, reflects a deeper transformation: legal authority itself, rather than the issue areas it governs, is becoming structurally fragmented.

This marks a system-level transition. Jurisdiction is no longer embedded in a partially coherent legal order, but distributed across competing, non-hierarchical regimes. Fragmentation is not a failure of coordination, but an alternative mode of order formation.

3.3 Persistent, Non-Kinetic Escalation

Within this fragmented environment, strategic competition increasingly unfolds through non-kinetic means. Regulation, compliance pressure, and economic restriction operate as instruments of escalation, enabling states to exert influence without direct military confrontation.

This form of escalation accumulates incrementally rather than through immediate disruption. Its effects are often low in visibility but high in systemic impact, as repeated regulatory actions reshape incentives, alter institutional behavior, and reconfigure patterns of global interaction.

The result is a condition of continuous confrontation embedded within routine economic and legal processes.

3.4 Stability Implications

The systemic consequences of this transformation are inherently dual.

On one hand, counter-extraterritorial frameworks enhance states’ capacity to resist unilateral coercion, introducing elements of deterrence symmetry into the legal domain and reducing the effectiveness of one-sided regulatory pressure.

On the other hand, the absence of a coherent hierarchical order increases systemic uncertainty. Firms face persistent unpredictability, while incompatible legal obligations generate risks of structural compliance deadlock. At the macro level, these dynamics accelerate fragmentation and weaken the integrative functions of global governance.

The result is a structural paradox: confrontation becomes more stable, managed and sustained below the threshold of open conflict, while the system itself becomes less stable due to the erosion of coherence, predictability, and shared legal frameworks.

As illustrated in Figure 1, these dynamics form a cumulative sequence: legal resistance generates compliance fragmentation; fragmentation produces cross-domain spillovers; spillovers contribute to the emergence of a jurisdictional regime complex; and their interaction shapes system trajectories and governance outcomes.

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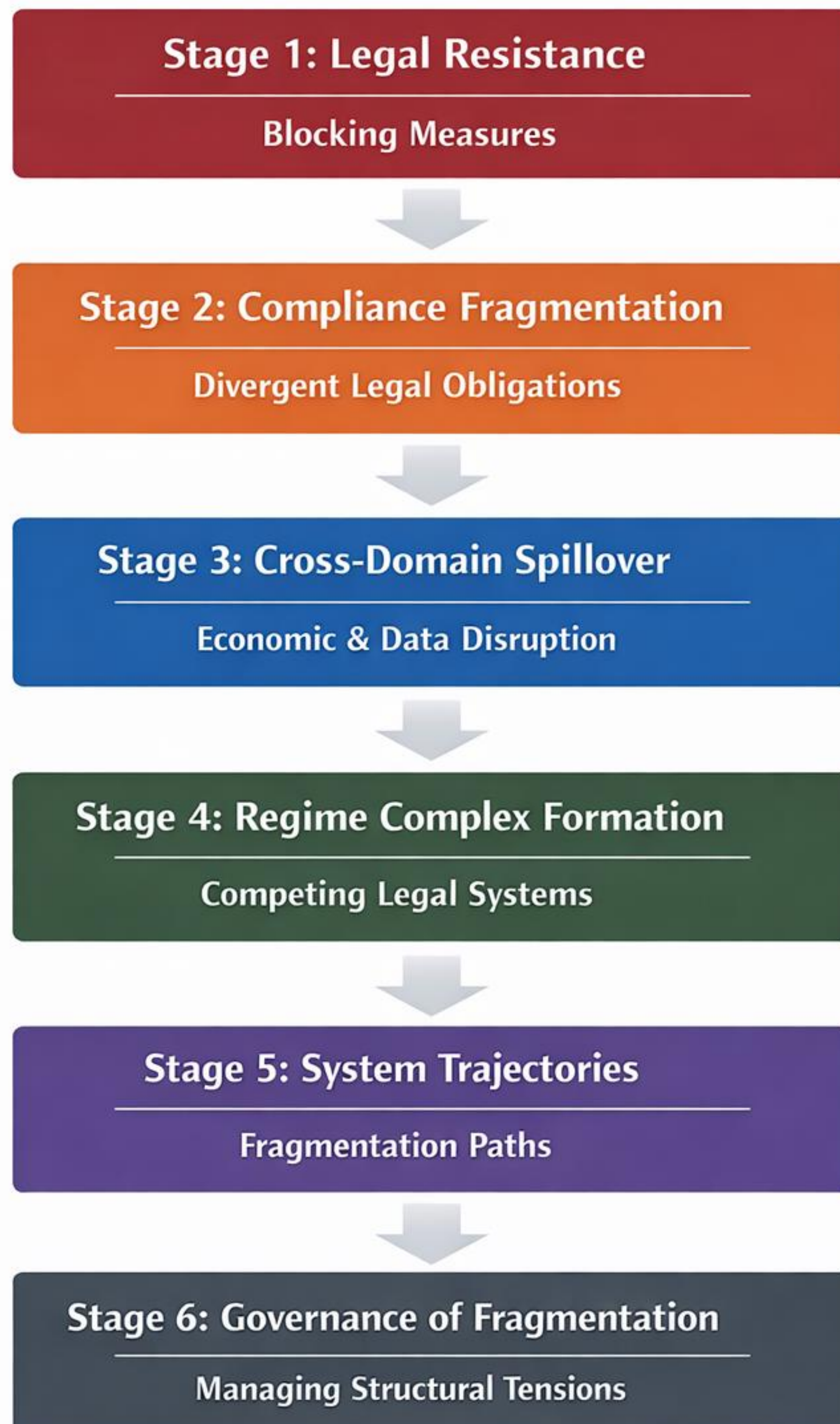


Figure 1. Jurisdictional Fragmentation Dynamics Framework

Source: Author's conceptual framework.

4. Policy Outlook

Over the medium term, interaction among competing jurisdictional frameworks generates distinct but overlapping trajectories. These pathways are shaped by how states, firms, and institutions respond to persistent legal incompatibility.

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4.1 Managed Fragmentation

Managed fragmentation describes a condition in which competing legal systems coexist without convergence while retaining partial interoperability. Firms adapt by restructuring operations across jurisdictions, developing segmented legal and supply chain architectures to navigate conflicting requirements.

Interdependence persists in a compartmentalized form, allowing the system to function despite underlying fragmentation. Legal conflict is absorbed through institutional adjustment and market adaptation.

4.2 Escalating Legal Retaliation

Escalating legal retaliation represents a trajectory in which reciprocal measures become institutionalized within regulatory frameworks. Legal conflict shifts from episodic disputes to sustained, system-embedded confrontation.

Jurisdictional competition evolves into a structured cycle of action and counteraction, where legal instruments operate as primary tools of strategic pressure. The result is a more adversarial and less predictable regulatory environment.

4.3 Systemic Bifurcation

Systemic bifurcation represents a structural transformation in which parallel legal, financial, and technological systems emerge with limited interoperability. Fragmentation deepens as cross-system interaction becomes constrained, compelling actors to align with competing regulatory spheres.

Unlike managed fragmentation, which preserves partial integration, bifurcation reorganizes the system into partially separate domains. This does not produce full decoupling, but fundamentally reshapes the architecture of global governance and economic exchange.

4.4 Trajectory Interaction and System Direction

These trajectories are not discrete end states, but interacting tendencies within a dynamic system. Elements of fragmentation, retaliation, and bifurcation coexist and reinforce one another over time.

System direction is determined by the balance between adaptive capacity and escalation pressure. Where institutional mechanisms and market adjustments effectively absorb and mediate conflict, fragmentation remains bounded and manageable. Where reciprocal measures intensify in the absence of coordination, the system shifts toward deeper and more persistent structural division.

For policymakers, the central task is not to select among trajectories, but to shape the structural conditions under which fragmentation remains bounded rather than systemically destabilizing.

Policy Brief**Conclusion**

China's counter-extraterritoriality framework marks a turning point in the evolution of the global legal order, shifting jurisdiction from a hierarchical, enforcement-driven system toward one in which legal authority is contested, decentralized, and strategically deployed.

In this environment, jurisdiction is no longer passively extended through structural dominance, but actively negotiated, resisted, and reasserted by states. The legal domain is becoming a primary arena of geopolitical competition rather than a neutral framework governing it.

The fragmentation of global compliance is not a temporary disruption, but a structural transformation in which multiple legal sovereignties generate persistent and, in some cases, irreconcilable demands on global actors.

For policymakers and institutions, the central challenge is not to restore systemic unity, but to operate within a fragmented legal environment and, where possible, stabilize it. This requires new approaches to coordination, risk management, and institutional design capable of managing conflict without assuming convergence.

The emerging order is defined not by the absence of rules, but by the coexistence of competing rule systems. Stability depends less on uniformity than on the capacity to manage fragmentation without escalation into systemic breakdown.

Ultimately, the future of the international legal order will be defined not by the restoration of unity, but by the governance of fragmentation.