

Strategic Management Responses to Emerging Global Trade Barriers

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Introduction: The New Architecture of Global Trade Friction

The form of dull and traditional trade that post-war liberalism had painstakingly waged through successive rounds of GATT and WTO negotiations faces sustained and arguably structural challenges. Between 2018 and 2024, global tariff interventions surged at a pace not recorded since the Great Depression. During the bilateral trade war between the US and China alone, retaliatory tariffs affected over US\$700 billion in goods [1]. This dynamism of the US and China, regardless of the interpretation, is only the tip of the iceberg of wider movements: the CEBAM launched by the European Union, India's increasingly assertive import substitution policies, and the US CHIPS and Science Act and the Inflation Reduction Act contain restructuring subsidies. All these developments point toward the centrality of trade policy as an instrument for industrial strategy, rather than a tool of comparative advantage. For those with a technical grasp of corporate strategy, this change is simply no longer an academic notion; it invites a sobering rethinking of value chain architecture, sourcing logic, market entry assumptions, and financial hedging frameworks. The relevant managerial question

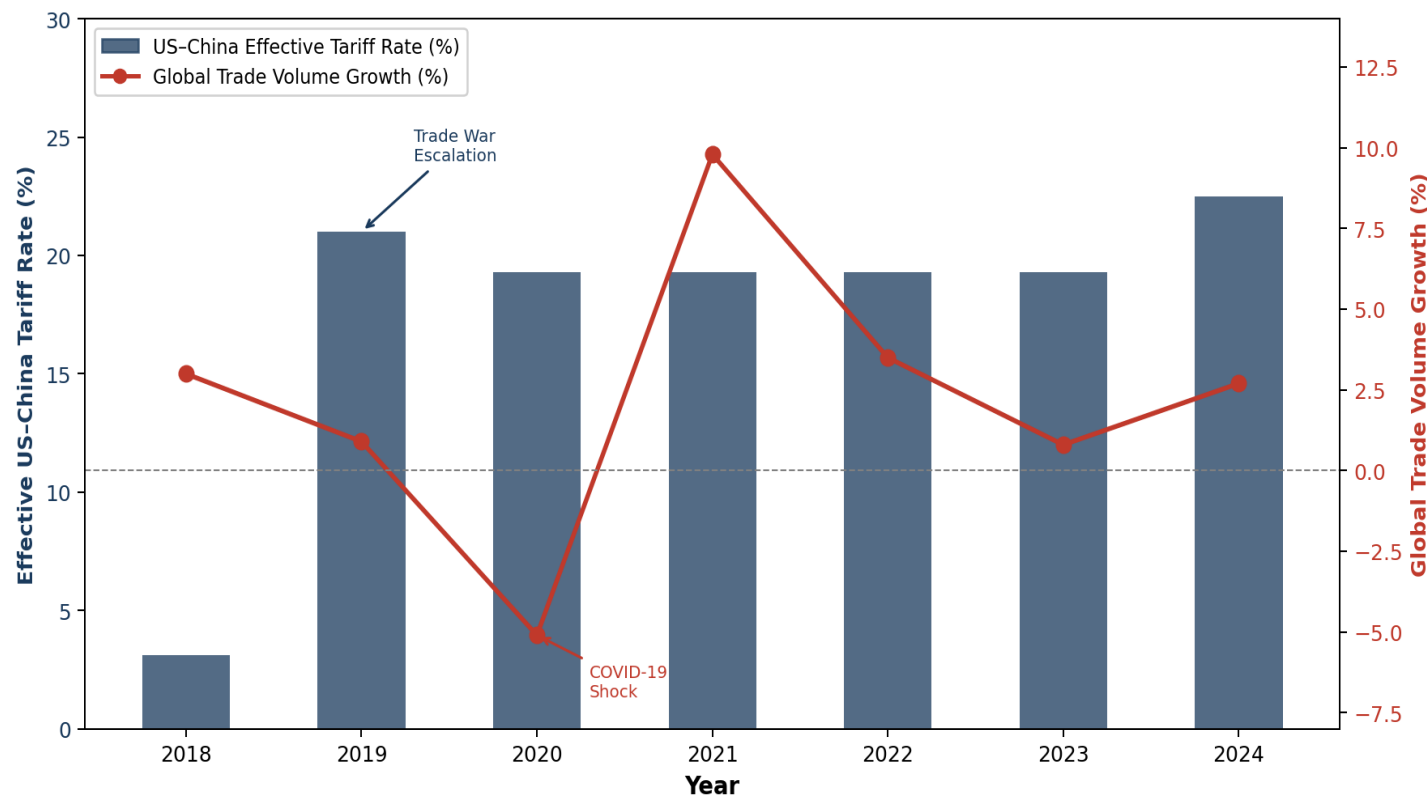
is no longer whether trade barriers will remain, but how firms can create durable strategic postures that consciously and decisively outperform competitors in a world of continuously changing trade policy settings. This article contributes to that practical agenda by synthesizing recent empirical research, strategic management theory, and practitioner case evidence into an integrated framework for trade barrier response.

Drivers of Contemporary Trade Barrier Proliferation

The dynamics for any modern trade barrier worth its salt grow currently from certain structural factors. The weaponization of economic interdependence [2] saw states employing trade and investment measures inculcated into their arsenal of geopolitical leverage. National security reasons support trade restrictions on certain items, such as technologies, minerals, and semiconductors. The most notable example of unilateral trade intervention in the tech sector was the U.S. Bureau of Industry and Security's rules in October 2022 and again in January 2023 on exporting high-tech chips. The COVID pandemic exposed structural weaknesses of global supply chains, leading to political pressure to increase domestic manufacturing in key sectors [3]. Countries within the OECD

are responding with industrial policies designed to bring back manufacturing capacity], in contrast to how WTO restrictions were previously imposed on subsidies. With the emergence of the digital economy, new forms of trade policy have emerged. Requirements for localizing data (digital services taxes) and differing regulations among jurisdictions (EU, USA, and major

emerging markets) have made it more difficult for companies to comply with the law and carry on business across jurisdictions [5]. As a result, multinational companies must now navigate complex regulatory frameworks to comply within different jurisdictions, which creates high additional costs comparable to traditional tariffs.



Sources: PIIE (2024); WTO World Trade Statistical Review (2024)

Figure 1: US-China tariff escalation vs global trade volume growth

Evidence from figure 1 demonstrates that tariff increases that started in mid 2018 happened at the same time as global trade

volume started to slow down significantly (3.0% in 2018 to 0.9% in 2019). After the COVID-19 recession of 2020, which saw a

5.1% decrease in demand and interrupted logistics, there was a record-breaking increase in global trade volume of 9.8% from 2021 due to pent-up demand for goods coupled with government stimulus funds. However, the post-pandemic economy's recovery is not what it was before the trade war: in 2023, the effective US–China tariffs remained at or above 19%. By 2024, after additional executive actions, the tariffs are expected to rise to around 22.5%. With continued growth of only 0.8% in trade volume in 2023, the slowest rate of growth without being in recession since the global financial crisis, low trade volume growth rates show that the current elevated trade barriers are a structural issue, not just a temporary one. Firms that perceived that the escalation of tariffs was only a temporary disruption

have historically underperformed competitors who view the risk from trade policy as a permanent part of their strategic plan [7].

A Taxonomy of Strategic Management Responses

Research in the areas of international business, operations management, and strategic management has identified specific models of strategic management for firms with elevated trade barriers. The synthesis of these six strategic responses, which MNEs can use to address the elevated trade barriers raised against them, is provided in table 1. The use of these archetypes is not mutually exclusive, and leading firms frequently apply combinations of these strategies based on their specific sectoral, geographic, and resource characteristics.

Table 1: Strategic response taxonomy for MNES facing global trade barriers

Response Strategy	Description	Example Sectors	Risk Level
Supply Chain Diversification	Relocating sourcing across multiple geographies to reduce single-country dependency	Electronics, Pharma, Auto	Medium
Near-shoring / Friend-shoring	Moving production to politically aligned or geographically proximate nations	Semiconductors, Defense	Low–Medium
Trade Agreement Leveraging	Utilizing preferential FTAs (USMCA, CPTPP, EU bilateral) to reroute flows	Agri-food, Textiles, Chemicals	Low
Vertical Integration	Internalising critical upstream inputs to insulate from tariff volatility	Batteries, Steel, Rare Earths	High
Digital Trade Expansion	Shifting deliverables to cross-border services and digital goods is less subject to tariffs	IT Services, Media, Finance	Low
Scenario-Based Hedging	Financial and operational hedging against tariff, currency, and logistics disruption	All sectors	Variable

Source: Authors' synthesis based on Gereffi (2020); OECD (2024); Witt et al. (2023) [3][7].

Supply chain diversification has attracted the most attention from researchers and practitioners in the global supply chain community. The rapid ramp of Apple's Indian and Vietnamese production capabilities for iPhones and the construction of additional TSMC semiconductor fabrication plants in Arizona and Japan demonstrate how technology companies are developing "China+N" sourcing structures. However, supply chain diversification also has costs: TSMC publicly estimates that continuing production in Arizona will cost approximately 50% more than to produce in Taiwan (PIIE, 2024)—which illustrates that developing strategic resilience is often at odds with operational efficiency in the short term. Friend-shoring—using supply chains from supply partners located in politically aligned countries—has received explicit endorsement in US Treasury and EU Commission policy. The CHIPS and European Union Critical Raw Materials Acts both include geographic preference terms that create an incentive for this behaviour. For companies working in dual-use technologies, complying with 'friend-shoring' requirements is essentially a firewall to being able to contract with and receive subsidies from the government [2]. The growth of digital trade represents the most overlooked strategic lever available. From 2019 to 2023, cross-border trade in services was growing at 8% per year while cross-border trade in goods was only growing at 2.3% [5]. Companies that are moving value-added delivery from product to software, data analytics, professional services and digital

media, have significantly lower exposure to tariff risks, however, they still face data localisation and digital tax compliance.

Dynamic Capabilities as the Implementation Enabler

Figure 2 illustrates how emerging global trade barriers create operational and strategic challenges for multinational enterprises. The framework demonstrates how firms can use strategic responses and dynamic capabilities to build resilience, sustain competitiveness, and achieve long-term performance in volatile trade environments.

Having determined which strategy to employ is not enough if the organisation does not have the implementation capabilities required to operate successfully under uncertainty. The dynamic capabilities framework developed by Teece, Pisano and Shuen (1997) is theoretically grounded in terms of the three categories of dynamic capabilities—sensing, seizing and reconfiguring routines—and allows us to examine what differentiates the firms who have done well at coping with trade disruptions vs those who have not [6].

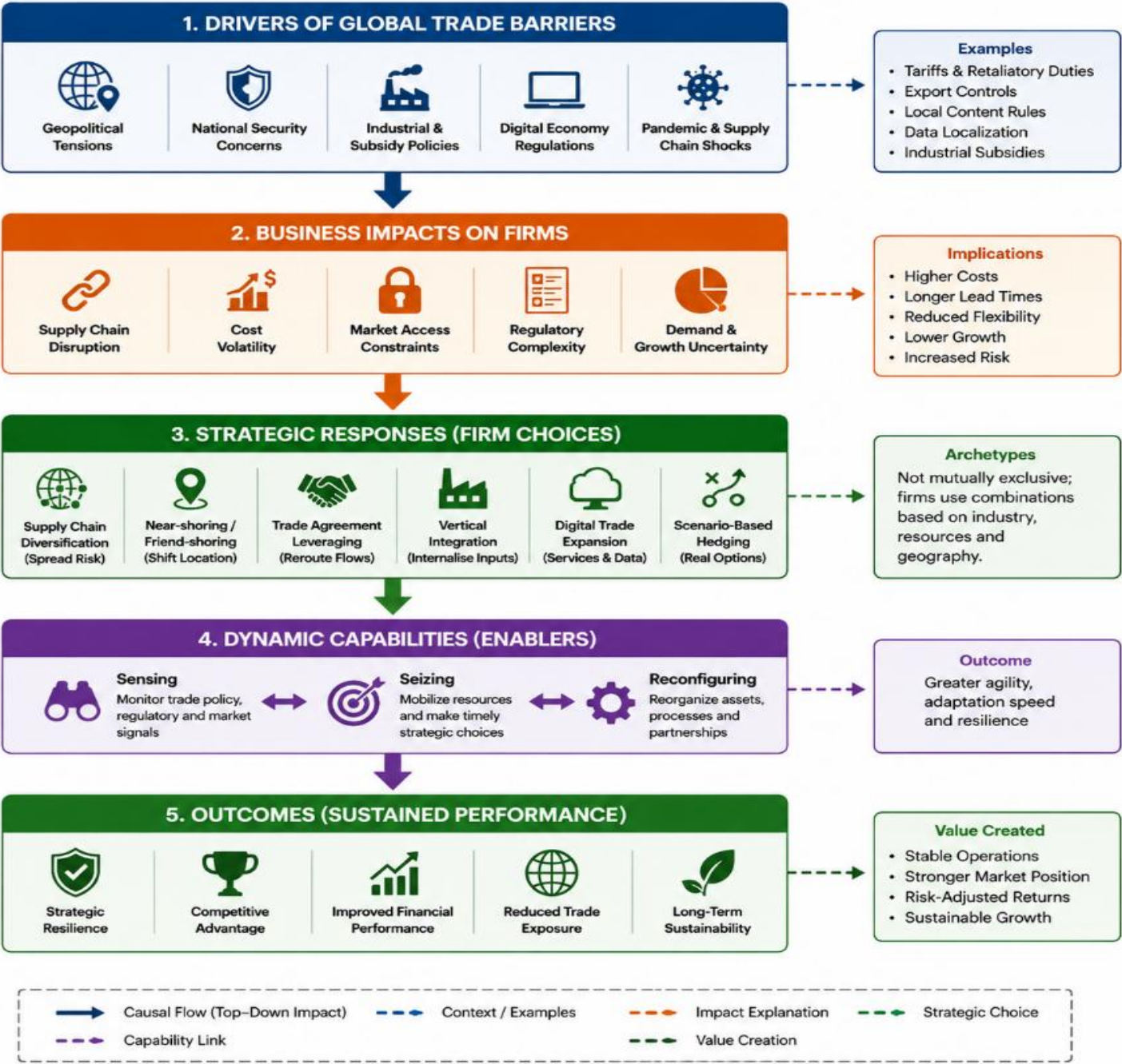


Figure 2: Strategic management framework for responding to emerging global trade barriers

Sensing dynamic capabilities require that organisations have early warning systems in place to monitor trade policy developments. This includes (1) establishing an external government relations/regulatory intelligence function; (2) placing personnel in associations involved in WTO and OECD monitoring processes; and (3) employing scenario modeling tools to translate trade policy signals into potential supply chain impacts and financial impacts. According to the findings of a survey conducted in 2023 of 280 chief strategy officers of multinational enterprises (MNEs), it was concluded that businesses having formalized trade risk monitoring functions were 2.3 times more likely to invest in supply chain adjustments proactively before the implementation of tariffs, rather than reactively afterward [7]. In order for firms to turn the sense of trade risk into actionable plans, they must possess the capability to rapidly contract with new suppliers, renegotiate shipping contracts, and deploy capital in favor of jurisdictions that they prefer. Characteristics that will facilitate firms achieving these capabilities include having modular supply chain designs, pre-approved alternative vendor registries, and investment policy rules that include tariffs-adjusted total landed cost calculations in their computations. Reconfiguring capabilities represents both the most challenging and also the longest-lasting competitive advantage. Companies that are able to redefine their corporate boundaries through joint ventures, contract manufacturing arrangements, and 'strategic divestment' of

tariff-laden assets will be able to build structural resilience that is not achievable through one-off tactical adjustments. This is further supported by the literature on institutional theory [4], which indicates that in order for organizations to create and maintain competitive advantages in high-friction trade environments, they must have harmonized their governance structure with the institutional reasoning of the countries in which they operate.

Conclusions and Practitioner Implications

Based on the analysis contained within this article, three major conclusions have been drawn for senior executives and strategic practitioners. The first conclusion is that the present-day rise of global trade barriers is due to structural and systemic factors rather than cyclical factors; therefore, any firm whose strategic planning depends on a return to pre-2018 trade liberalization norms has created a category of strategic risk that is both measurable and real. The second conclusion is that there is no singularly applicable response strategy that will work in every situation. Each firm will require a unique balance of diversification, near-shoring, free-trade agreements, vertical integration, digital substitution, and financial hedging based on its respective context. Practitioners need to resist the temptation to assume that supply chain diversification is a universal cure, as its associated costs are tangible and will be contingent on the execution capabilities of each firm. The third and ultimately

most important conclusion is that those firms that will maintain their competitive advantage during this period of trade friction will be companies whose dynamic capabilities – that is, the organisational processes for sensing, seizing and reconfiguring – convert the uncertainty of a trade policy into a competitive edge. In the current global economy where trade barriers have become increasingly normalised, the need for companies to possess strategic agility is no longer a 'nice-to-have', but rather, it is a key competency needed for success in today's marketplace.

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