

Strategic Decision-Making in the Face of Global Trade Constraints

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Cross-border trade's risk assessment has changed significantly because of increasing tensions among countries, reversing protective policies and breaking up global trade supply chains created during the pandemic as well as changing foreign currency rates. The frameworks for making strategic decisions used when trade was relatively uninterrupted by these types of issues are largely ineffective in managing the multiple issues. The authors of this paper present an integrated strategic decision-making trade framework, using four integrated strategic layers, drawing on dynamic capabilities' theory, global value chain analysis, and real-time commercial market intelligence [4]. Using data from the World Trade Organization (2024) and the Baker, Bloom, and Davis Economic Policy Uncertainty Index, they show that firms whose governance structures incorporate adaptive governance principles, scenario-planning capabilities, and delegation of decision-making authority outperformed firms that do not have such practices systematically during periods of trade constraints. Finally, this article provides a roadmap of practical

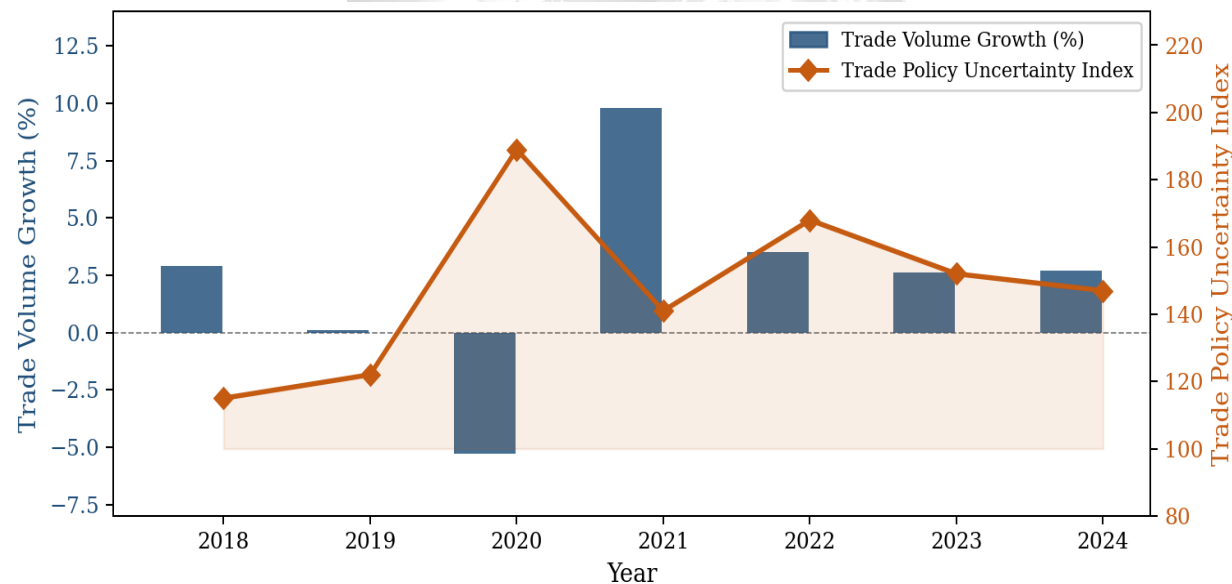
implementation for senior trade executives and strategy directors.

Introduction

The rules-based multilateral trading system that has governed six decades of globally expanding free trade is experiencing unprecedented increases in pressure on that system since the founding of the General Agreement on Tariffs and Trade (GATT) in 1947. The G20 nations have increased new trade barriers by more than 200% (more than 200 new systems) between the years of 2018 through 2024 using tariffs, export controls, investment screening and digital trade barriers, based on figures from the World Trade Organisation 2024 [6]. The COVID-19 epidemic led to a 5.3% decline in global merchandise trade during 2020 and revealed that just-in-time global supply chain systems had large structural weaknesses that are further exacerbated by geopolitical disintegration. Many firms' international operations have become increasingly complex and operationally challenging due to the changes in the global trade environment. In fact, some of the most serious challenges to strategic

decision-making models (which help multinational firms allocate resources, select appropriate markets, configure supply networks and manage their financial exposures) stem from the evolution of trade to one characterised by radical uncertainty (Contractor, 2022). Traditional strategic planning tools (e.g., portfolio matrices, cost-benefit analyses, multi-year forecasts) were designed with a premise of bounded uncertainty. The current trade environment lacks certainty or even the ability to delineate any of the possible outcomes and the probabilities assigned to/among the most significant outcomes. This article directly examines the inability of multinationals to use traditional strategic decision-making models under the

constraints of the new trade realities. We propose that to effectively make strategic decisions with respect to these constraints, multinationals must possess three complementary capabilities: a way to anticipate weak signals of emerging constraints as early as possible; the ability and authority to respond to those weak signals by developing and implementing adaptive strategies in a timely manner (i.e. quickly); and the ability and mechanisms to learn from each round of decision-making and continuously renew their strategic options. Together, we define these three capabilities as a Constrained Trade Decision Architecture (CTDA).



Sources: World Trade Organization, Global Trade Outlook (2024); Baker, Bloom & Davis, Economic Policy Uncertainty Index (2024)

Figure 1: Global merchandise trade volume growth vs. trade policy uncertainty index (2018–2024) sources: world trade organization (2024); baker, bloom & davis, economic policy uncertainty index (2024)

Figure 1 reveals the central empirical tension confronting strategic decision-makers. While trade volume recovered sharply in 2021 following the pandemic contraction, the Trade Policy Uncertainty Index remained persistently elevated—never returning to pre-2018 baseline levels [3]. This sustained policy uncertainty, even when trade volumes appear stable, creates a structural decision-making hazard: firms that interpret volume recovery as systemic stability and reduce their strategic vigilance are exposed to sudden constraint spikes. Sound strategic frameworks must therefore be calibrated not to trade volumes alone but to the underlying policy risk environment in which those volumes are generated.

Theoretical Foundations

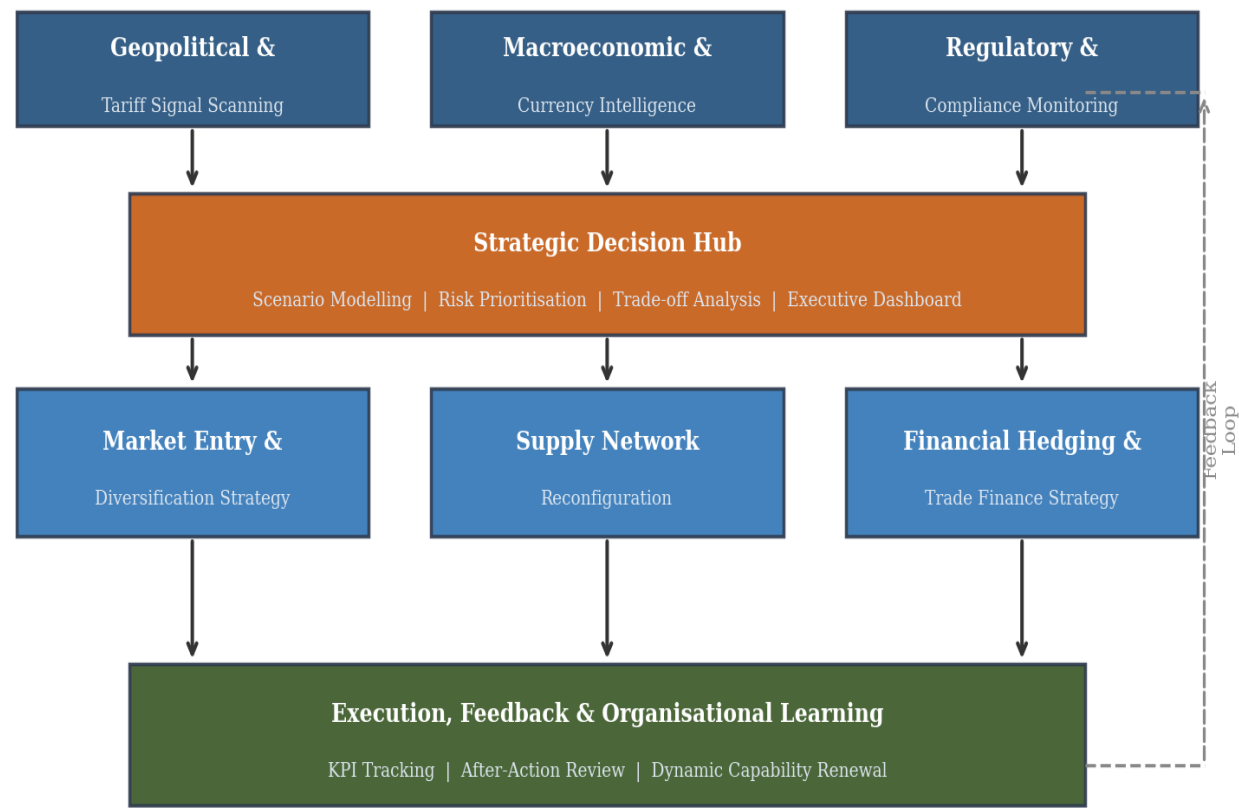
The conceptual framework for this project consists of three different theoretical frameworks. The first is Teece et al.'s (1997) dynamic capabilities framework, which asserts that a firm's competitive advantage in uncertain and rapidly changing business environments stems from its ability to sense changes, take advantage of opportunities, and reconfigure its internal resources [5]. In relation to trade strategy, this dynamic capability translates into the firm's ability to exit constrained markets quickly, build alternative suppliers, adjust trade finance facilities, and renegotiate contracts faster than competitors. The second framework that the conceptual framework is based on is Gereffi's (2018) GVC framework. This GVC framework

provides an analysis of the way global firms organise, govern, and upgrade their network of production and distribution activities across borders over time. The GVC framework specifically looks at how firms are not independent decision-makers, but instead exist in a network of relationships with suppliers, buyers, logistics providers, and regulators where the decisions of these other firms impact a firm's ability to implement a strategic response to trade constraints. Therefore, GVCs require both firm-level capabilities and firm-to-firm co-ordination between firms to build resilience. The final theoretical framework that the conceptual framework is based on is the economic policy uncertainty literature that was pioneered by Baker et al. (2016) [1]. This literature encompasses both a theoretical framework for understanding the role of policy uncertainty in project decision-making, as well as a measure of the accumulation of policy uncertainty risk over the period studied. Their findings have been that increases in policy uncertainty reduce the level of investment made by firms and limit credit available to trade with other firms, and shorten the amount of time firms have to engage in forward planning. This has a direct influence on the way firms will implement their decision-making processes under conditions of trade constraint. Buckley and Casson (2021) similarly contend that internalisation theory must be modified to take into account policy uncertainty as a primary influencer of the decision of firms to enter or exit international markets [2].

The Constrained Trade Decision Architecture (CTDA)

The Constrained Trade Decision Architecture (CTDA) is illustrated in figure 2 as a 4-level framework that fuses the theoretical components articulated above into a working

decision-making framework. Each of the four layers corresponds with a specific set of organisational functions, where data flows downward across the four layers, from environmental sensing to strategic execution, and back up through the strategic learning loop.



Source: Authors' own elaboration (2025)

Figure 2: Strategic decision-making architecture for global trade constraints source: authors’ own elaboration (2025)

The Sensing Layer collects and collates information relating to geopolitical intelligence, changes to tariff schedules, currency

fluctuations and regulatory updates, from both structured databases and unstructured sources of news. At the core of the

CTDA is the Strategic Decision Hub, where raw intelligence is analysed to create decision priorities, using methodologies such as scenario modelling, risk-based trade-off analysis, and the development of an executive dashboard which uses real-time risk as the benchmark for measuring the effectiveness of the architecture. Collectively, the three strategic levers (market entry/diversification; a supply chain reconfiguration; and financial hedging strategies) represent the firm's most significant tools for adapting to its changing marketplace. Finally, the Execution and Learning Layer provides the infrastructure to close the strategic loop by using operational results to improve organisational capabilities through structured after-action reviews and dynamic capability building processes. An essential characteristic of the architecture is its feedback loop capability which mitigates the siloing of strategic decisions that is inherent within traditional approaches to trade management. In traditional models, data sharing between market intelligence, supply chain management, and treasury functions is limited to corporate calendar cycles; i.e., long periods of time, often quarterly, when data can be shared. The CTDA creates a process to ensure that information, such as tariff escalations detected by the Sensing Layer, is able to be viewed, at the same time, by all three functions (procurement, treasury, and market strategy) within the architecture, within hours (rather than weeks).

Strategic Dimensions and Decision Innovation

Table 1 is a mapping of six strategic dimensions demonstrating the transition from constraint-reactive trade management to constraint-adaptive trade management systems. Each trade constraint dimension indicates the type of category for each trade constraint it addresses; the normal management response; the innovative alternative to that management response; and the performance of those new innovative alternative approaches documented in both peer-reviewed and practitioner-based research in the form of evidence and experience.

Table 1 provides many areas of interest for further discussion, but in particular, we would like to elaborate on a few of the findings. The market selection dimension illustrates a shift away from being risk-averse by consolidating into home markets when tariffs rise towards a move towards strategic diversification into emerging trade corridors located in Southeast Asia, the Gulf Cooperation Council and sub-Saharan Africa; all of which have less exposure to the US-China trade tensions. Contractor (2022) documented that companies creating a strategy for active market diversification during 2018-2021, had actual revenue stability equal to a total of 18 percentage points versus those who retreated back to their core markets. In all likelihood, the governance model represents one of the most

structurally significant offshoots of developing an organisation to be able to respond to trade constraints in a timely manner.

The method of centralised decision-making (i.e., country managers needing to go through multiple layers of the hierarchy

when trying to escalate a trade disruption before being granted authority to respond), primarily results in decision lags of weeks while there are environments where only a few hours matter.

Table 1: Strategic decision dimensions under global trade constraints

Decision Dimension	Constraint Type	Traditional Response	Innovation-Led Response	Performance Impact
Market Selection	Tariff / sanctions	Consolidate to home market	Diversify into emerging corridors	Revenue stability +18%
Supplier Network	Single-source risk	Seek alternative supplier	Multi-tier, multi-region mesh	Disruption exposure -40%
Trade Finance	Currency volatility	USD denomination	Dynamic multi-currency hedging	FX loss reduction -34%
Regulatory Posture	Diverging standards	Jurisdiction-by-jurisdiction filing	Unified compliance engine (API)	Compliance cost -27%
Information Flow	Data asymmetry	Periodic batch reporting	Real-time cross-border visibility	Decision lag -60%
Governance Model	Geopolitical exposure	Centralised HQ decisions	Distributed authority + playbooks	Response speed +45%

Source: Authors’ synthesis based on Teece, Pisano & Shuen (1997); Gereffi (2018); Contractor (2022).

According to practitioner-reported data synthesised in Gereffi (2018), firms implementing a distributed decision- authority model through pre-approved playbooks, whereby regional leaders are given the authority to respond to a defined set of trade constraints without first requiring HQ approval, have improved their effective response time by an average of 45%.

Implementation Pathways and Conclusion

The CTDA must be implemented by way of sequenced investments made across three time horizons. During the short-term (zero to twelve months) process, companies are encouraged to conduct a decision audit to determine how many locations currently receive trade constraint signals, who has the

capability of making a response to the trade constraints, and the extent to which the responses can be initiated upon receipt of the signal. In all cases, this initial audit process will find that the sensing of trade constraints is fragmented across departmental functions, that the authority to respond is overly centralized, and that there either are no response playbooks or that the playbooks are out-dated. Although there are multiple ways to close these gaps (integrated intelligence dashboards, delegated authority frameworks, and scenario-tested playbooks), organizations cannot successfully harness subsequent investments without having established the foundational elements necessary for doing so. The medium-term (1 to 3 years) key strategic focus is on capability development, which includes the development of

internal skills for geopolitical scenario planning, the deployment of an Application Program Interface (API)-integrated compliance engine(s) to harmonize the regulatory requirements of various jurisdictions, and the establishment of formal protocols for the partnership with suppliers for the purpose of distributing the risk of disruption across multi-tier supply networks. Baker, Bloom and Davis (2016) demonstrate that in the current trade environment, policy uncertainty is a predictable, but not precisely quantifiable, characteristic of the changing global economic environment; firms that invest in create anticipatory capabilities during periods of relative stability will have been able to establish structural advantages that cannot be duplicated in times of crisis. The long-term (3 years or more) goal is institutionalization; i.e., to perform the embedding of trade resilience Key Performance Indicators (KPIs) into executive performance evaluations, establish coalitions for data-sharing with strategic trade partners, and create an organizational culture that Teece, Pisano and Shuen (1997) identify as the basis of sustained dynamic capability. Organizations that treat trade resilience as a project (i.e., a defined beginning and ending) consistently regenerate their capacity after each disruption cycle. Organizations that treat trade resilience as a permanent organizational competence will convert disruption into competitive advantage. The information and data contained within this article leads to one definitive strategic conclusion: Global trade constraints creating issues for

organizations are not short-term challenges and will not return back to the original stable multilateral baseline; rather, the new structure where global organizations function will remain in place. Since the Trade Policy Uncertainty Index has not returned back to the pre-2018 level despite the resolution of the pandemic as well as the fact that the continuing dynamics of global fragmentation indicate that this will likely not occur, organizations will have to rely on embedding adaptive decision-making frameworks, strategically distributing authority, and continually learning to position themselves in an advantageous position for sustained trade performance under constraint as opposed to relying on reactive, individual function-based responses. The CTDA presented in this article serves as a blueprint for organizations to make this happen.

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