



## STEEL COMPANIES IN A TURMOIL OF“TRADE WARS”: A VIEW FROM TURKEY\*

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### ABSTRACT

The tariffs imposed by the United States (U.S.) on Turkish-origin steel products in 2018 undeniably affected the strategic behavior of steel companies based in Turkey. The objective of this paper is to analyze through semi-structured interviews how the trade strategy of Turkish steel firms is affected by these tariffs. Conventional wisdom commends that corporate response of steel companies against the tariff imposition focused mostly on two main strategies: seeking alternative markets and innovation-based product diversification. Our findings suggest that, a mixture of political and economic reasons lie behind the levies. This makes the Turkish case interesting in the overall trade wars between the U.S. and a multitude of countries, especially in the emerging-market concept.

**Keywords:** *Trade wars, protectionism, political risks, industrial economics, diversification, competitive strategies, Turkish steel industry.*

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## TİCARET SAVAŞLARI" KARMAŞASINDA ÇELİK FİRMALARI: TÜRKİYE'DEN BİR GÖRÜŞ

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### ÖZ

Amerika Birleşik Devletleri tarafından 2018 yılında Türkiye menşeli çelik ürünlerine uygulanan tarifeler, Türkiye'deki çelik firmalarının stratejik davranışını etkilemiştir. Bu çalışmanın amacı, Türkiye'de faaliyet gösteren çelik firmalarının tarifelerden nasıl etkilendiğini yarı yapılandırılmış mülakatlar ile değerlendirmektir. Çelik firmalarının tarifelere tepkilerine ilişkin iki temel stratejinin var olduğu kabul edilir: alternatif pazar arayışı ve yenilik temelli ürün çeşitlendirilmesi. Bu çalışmadaki bulgulara göre, Türkiye'ye uygulanan tarifeler siyasal ve iktisadi nedenlerden kanaklanmaktadır. Bu da Türkiye örneğini ABD ile çeşitli ülkeler arasında gerçekleşen ticaret savaşlarında (özellikle yükselen piyasa kavramı içerisinde) ilgi çekici kalmaktadır.

**Anahtar Kelimeler:** Ticaret savaşları, korumacılık, siyasal riskler, sanayi ekonomisi, çeşitlendirme, rekabetçi stratejiler, Türk çelik endüstrisi.

## 1. Introduction

Under Donald Trump's presidency, relations between Turkey and the United States (U.S.) seem to have entered into a new period where politically motivated decisions of the American executive have significant economic ramifications for Turkey. Steel is one of the sectors where this phenomenon critically appears. In this research, we aim to paint a picture of political relations between the United States and Turkey while shedding light on the strategies of steel producers. Through this research, we intend to analyse the impact that a mixture of political and economic issues between Turkey and the (U.S.) has had upon Turkish steel sector by taking into account the strategies of domestic and foreign companies. To fulfil our objective, we investigated the latest trade and business reports to explore the evolution of Turkey-U.S. steel trade transactions. We also looked into the primary sources (government documents, research reports and statistical data) and secondary sources (books, journal articles and media outlets) to enrich the conceptual and factual analyses in our study. Part of our efforts concentrated on semi-structured interviews (conducted between the period May 2019- January 2020) with leading domestic and multinational business companies to compensate the lack of data in the existing literature. During our research, we have met two main difficulties: The recency of the period of time that we focus on, and the unwillingness of the companies to share all their strategic decisions with third parties. Hence, we will begin by outlining the logic of the multi-front trade wars that Donald Trump initiated in 2018. We will then focus on this war, by allotting a particular place on the steel sector. A literature review on protectionism will come next. A comparative look on corporate strategies, followed by the section on methodology, will precede our concluding remarks.

## 2. The logic of the trade wars according to Trump

Donald Trump had sent signals on a future trade wars even before his election as president. He announced the tax increase on steel -a commodity of strong symbolic significance whose price had gone down due to the competition with China-eight months before taking office. This decision is based on his belief that his country "had long been treated unfairly" and "taken advantage of

by other countries" including allies (NBC News, 2017; Sullivan et al., 2018; Rothman, 2016). He has highly politicized the trade deficit question -which he has depicted as the previous administration's mistake- since his campaign period and vowed to his constituency to return to the United States the respect it used to have.

To deliver on his promise, he has resorted to his peculiar method of negotiation characterized by periods of friction and appeasement in a way that he has elaborated in his book *The Art of the Deal*. After the election victory, it was time for him to deliver on his campaign promises. Hence, the trade deficit has become a high-rank item on the presidential agenda as a problem that should be addressed. With a sour rhetoric revolving around national security concerns, obviously accompanied by populist intentions, he has imposed tariffs on the imports of this commodity from a number of countries, including Turkey. The message was welcome by various groups in the American society who felt victimized by free trade. That gave him, he believed, a large room for manoeuvre to pull the U.S. out of the global trade. He has also aimed to capitalize on the support of masses, especially those working in the coal and steel industry.

Trump's unilateral inclinations help explain his policy choices. "America first" inexorably poisons the relations with third parties, accompanied by an animosity towards the international organisations and agreements that aim to maintain the liberal rules of trade. The withdrawal from Trans Pacific Partnership, the overt threat of following the same path vis-à-vis NAFTA and the way he renegotiated the South Korea Free Trade Agreement (again, without hesitating to threaten the Korean side with steel and aluminium tariffs) illustrate his stance.

The online petition of the U.S. Chamber of Commerce summarizes successfully the worries on these decisions: Tariffs imposed by Trump administration war has pushed the U.S. into a global war that has led (and will lead further) to retaliations of billions of dollars. Yet, employment in the U.S. depends heavily on free trade, with exports playing a crucial part in the economy. Because extra levies on imports will lead to unemployment and economic recession at the U.S., the Chamber of Commerce has felt the need to warn the public on the fallacy of restricting trade as a remedy against unfair trade practices (Chamber of Commerce of the United States of America, 2019).

It goes without saying that the impact of these tensions went beyond American and Chinese territories. Even the global growth has been affected, as the International Monetary Fund reports (2019).

Because U.S. trade policy has shifted towards more protectionist approach, Trump has launched various trade wars against many states and the European Union (EU). Thus, the trade war's primary target is the commercial deficit -which was, in 2018, \$378,6 billion and \$109 billion with China and the EU respectively. The same year, the level of trade deficit in goods reached \$19,8 billion with Canada and \$81,5 billion with Mexico (Office of the USTR). The President of the U.S. believes that this needs to be corrected. To let the American public know of his endeavours in this direction, he has frequently used Twitter, his favourite social media platform.

### **3. U.S. Trade Disputes with China and other countries**

Tensions began in March 2018, when Trump announced a tax of 25% on steel and 10% on aluminum imports. China, the biggest producer in the world (Worldsteel, 2020; USGS, 2020), would be hit severely by this decision. In July the same year, the trade war was already underway with the U.S. tariffs on \$ 34 billion of Chinese imports (CNBC, 2018). To nobody's surprise, Beijing has retaliated, provoking a series of tension and appeasement periods.

Beijing first decided to respond incrementally with an equivalent taxation of American-origin goods. Nevertheless, with imports of U.S. products four times inferior to Chinese products in the U.S., this strategy could not counterweigh Donald Trump's threats to sanction the totality to Chinese exportations to the U.S.. Under pressure, Beijing had to yield in some fields, including the opening of financial sector (Weinland and Lockett, 2019) and the ending of automobile joint ventures (Moss and Colias, 2018) where the Chinese companies present strength. The truce at the end of the year lasted until May 2019, with the U.S. decision to an extra taxing of 200 billion-dollar-worth Chinese goods (accompanied by a special treatment of Chinese telecom giant and phone maker Huawei). Early in summer 2019, the Shanghai negotiations between Chinese and American heads of state preceded an additional tariff of 10 percent imposed by the U.S. on the importations from the Empire of the Middle representing a trade volume of 300 billion dollars.

In September 2019, the U.S. had imposed tariffs on more than 360 billion dollars of Chinese products to force the government of Beijing to modify its policies on a variety of fields including intellectual property, industrial support and technology transfers. Rejecting Washington's accusations on unfair trade practices, China riposted with tariffs on more than 110 billion dollars of U.S. products. Negotiations between two countries led to "phase one" trade agreement reached in January 2020 where the United States secured an additional 200 billion dollar of exportation. To nobody's surprise, China has not been the only target of the U.S. government. The latter has imposed taxes on imports from Mexico, Canada and the EU illustrate that Donald Trump did not discriminate friends from foes in this war. All of these countries have reciprocated indeed. Canada and the EU imposed tariffs on 12.6 billion dollars and 2.8 billion dollars of U.S. goods respectively. Mexico imposed tariffs up to 25 percent on several U.S. goods (BBC News, 2019).

An important part of the trade wars revolved around the steel sector, which had more than economic ramifications according to the U.S. executive. The reports that the Department of Commerce Secretary of Wilbur Ross delivered in 2018 upon Donald Trump's demand emphasized that the quantities of the imported steel and aluminum -and the circumstances under which these imports have taken place- constitute a threat to the US national security. By pointing at the domestic (US imports almost quadruple its exports) and international (global production grew by 127% since 2000 and the global excess capacity nears 7 times the US' yearly consumption) landscapes, the Steel Report emphasizes China's dominant position in the market. The Report also paints a gloomy picture by stating that 29 of the 169 anti-dumping orders were carried out against China (in addition to 25 investigations that were under way in early 2018). In addition, it draws attention to the decrease in the number of US steel companies. On these grounds, Wilbur Ross recommended a tariff imposition to pick among the following three schemes: a minimum of 24% for all steel imports, 53% for 12 countries (including China and Turkey) or a quota for all countries that would equal 63% of their 2017 exports to the US.

In the Aluminum Report, attention is drawn to the increase (of 22 percentage points between 2012 and 2018) in total demand for primary aluminum.

In this sector, 58% of the workforce was lost between 2013 and 2016, and the number of smelters fell to five from eleven -with only two of them operating at full capacity despite the overall rise in the demand. Current (lower) levels of spending further deteriorate the situation: at present, only one domestic producer provides the high-quality output necessary for the US military aerospace. In 2018, China was subject to all of the two aluminum-related anti-dumping measures and four investigations. Mr. Ross recommended again a triple-scenario as a way out: a minimum global tariff of 7.7%, a 23.6% tariff against four countries (including China) with the rest of the world being pushed to quotas equaling their 2017 exports to the US, a quota equaling 86.7% of the 2017 export volume for all countries.

The reports of the Secretary have led Donald Trump to adopt two presidential proclamations in March 2018, which heralded ad valorem tariffs on steel (25%) and aluminum (10%) imports (Department of Commerce, 2020). It is also important to highlight that the Commerce Department has undertaken other inquiries. One of them is the investigation opened by the Trade Representative Robert E. Lighthizer in August 2017, following Trump's memorandum<sup>5</sup> accusing China of breaking the rules of global trade under section 301 of the Trade Act of 1974 in the fields of technology transfer, intellectual property and innovation<sup>6</sup>. In October 2017, the U.S. International Trade Commission reported that solar panels and washing machines were detrimental to US industries and they necessitated global safeguard measures. Likewise, "autos and parts" were another field of play in the trade war.

#### 4. Protectionism as the Basis of Trade wars

Protectionism is defined as an economic policy arranged to restrain international trade by means of a variety of restrictive trade barriers and regulations for the protection of local markets and companies from foreign take-over [Fouda (2012), p. 351]. Tariffs which have historically been the most important type of trade restrictions can be defined as a tax or duty imposed on the traded commodity when it crosses a national boundary (Salvatore (2013), pp. 221). In addition to tariffs, most countries imposed several explicit (import quotas) or less explicit (tax and export subsidies) trade barriers, believing that such measures are designed to protect their workers from competition

and to make their own firms and consumers better off [Krueger (2004), pp. 204-205; Bhagwati, 2002].

In order to comprehend the logic of trade wars, it seems pertinent to focus on the concept of protectionism within a historical perspective. In economic history, the protectionism was often related with economic policies such as mercantilism, national priority and strategic trade policy. Mercantilism has advocated protectionist measures by arguing that the way for a country to become powerful was to have trade surplus, that is exporting more than importing. The more precious metals a country had, the richer it was. 17th century English writer Thomas Mun stated that a nation could increase its wealth by encouraging exports rather than imports. Protectionist measures namely tariffs were generally high in European countries and in the U.S. towards the end of 18th century. The war between France and England seriously strengthened the trade disruption. [Hägqvist, (2015), pp. 28-53].

"National priority" and "Infant-industry" arguments of protectionism, advocated particularly by Friedrich List (1904) aimed to protect the domestic industry during its development to obtain economies of scale and to compete with foreign nations. When this development is achieved, protection could be removed [Helleiner (2002), p. 311]. Japan's protectionist measures of its rice farmers from U.S.' imports are examples of such arguments [Alon and Herbert (2009), pp. 132].

Strategic trade policy, relatively more recent argument of protectionism emphasized an activist trade policy and protectionism. Pursuant to strategic trade policy, a country can generate comparative advantages by using several trade protection measures in certain strategic fields including information and communication technology and thus enhance its economic growth. Japan's industrial development after the World War II, the development of the Concorde and the Airbus in Europe are some of examples of strategic and industrial policy [Salvatore, (2013), pp. 271-289].

After the World War II, recovering countries aimed to encourage their domestic production through protectionist measures. However, the advantages of free trade were advocated by neoliberal economists. In order to negotiate the elimination of protectionist measures including tariffs and quotas, International Organisations such as GATT (General Agreement on Tariffs and Trade) were established.

<sup>5</sup> Presidential Memorandum for the United States Trade Representative, August 14, 2017. <https://www.whitehouse.gov/presidential-actions/presidential-memorandum-united-states-trade-representative/> (Accessed 22 June 2020).

<sup>6</sup> Section 301 covers foreign acts, policies, and practices that violate (or are inconsistent with) a trade agreement or are unjustifiable and burden or restrict US commerce. See: Congressional Research Service, Enforcing U.S. Trade Laws: Section 301 and China, June 26, 2019, <https://fas.org/spp/crs/row/IF10708.pdf>. (Accessed: 20 June 2020).

Upon recovery and growth, East Asian countries (Japan, South Korea etc.), started to increase their export and thus trade surpluses to developed countries, particularly to U.S. and Europe. This threat shifted mercantilist argument from restructuring the domestic industry to that of protecting the employment at home. In 1980s, free trade arguments were strongly advocated against protectionism. In the following decade, North American Free Trade Agreement (NAFTA) and the EU were set up to enhance regional trade in North America and in Europe [Cwik, (2011), p. 9]. Since restrictions on imports have been reduced over time through these multilateral attempts, protectionism has been mostly implemented by other types of measures including tax and R&D incentives or subsidies. Thus there have been various trade disputes between the U.S. and the EU (Airbus-Boeing disputes or U.S. tariffs on steel) as well as between the U.S. and other countries, and among many countries (Irwin, 2002). More recently, China's outstanding economic growth has begun to emerge as another major challenge to U.S. commercial policy [Zeng, (2004), p.1]. The fast and highly growing trade volume between the U.S. and China resulted in a bilateral trade surplus that reached 260.37 billion dollars in 2015 from 30 billion dollars in 2000 in China's benefit. This situation started the tensions in China and U.S. relations [Guo et al, (2018), p. 107].

The United States generally responded and retaliated against nations deploying protectionist policies. The country has also taken some measures to force its trade partners to open their markets to U.S. exports and has retaliated with several restrictions to protect its own market. Examples of this protectionist policy are found in 1991 semi-conductor agreement as well as in the early 1990s construction agreement made with Japan. The aim of both agreement was to open Japanese market more widely to U.S. semiconductor and construction firms [Salvatore, (2013), p. 277]. In fact, these examples are not the first American protectionist measures in the history of U.S. commercial policy. The Smoot-Hawley Tariff Act of 1930 resulted in the highest tariff rate of all time in the U.S.. In 1930, the U.S. Congress increased U.S. tariffs for 20,000 imported products and the average tariff on protected goods raised from 39 percent to 48 percent. Upon this, many U.S. trading partners retaliated against the U.S.. The U.S. share in global trade decreased from 16 percent in 1930 to 11 percent in 1935. One of the reason of decrease in U.S. imports by 40 percent after 1930 is attributed to foreign retaliation against the U.S. tariffs [Bouët and Laborde, (2018), p. 2279].

The use of several implicit protectionist measures was common in the context of the previous U.S.

elections before Donald Trump [Boata et al, (2018), p. 5]. Besides, Trump is not the first American President imposing tariffs on steel products. In 2002, George W. Bush raised the U.S. tariffs on some steel commodities to boost the country's steel industry. The result was rising delays in production, rising prices and unemployment in related industries. Furthermore, the WTO (World Trade Organization) decided that the rising tariffs were not in accordance with global trade rules. Since the Bush tariffs faced retaliation from EU and other countries, they were overturned after 18 months, earlier than the planned period (Politico, 2018; Global News, 2018).

Accordingly, Trump's program was clearly organized around protectionist measures challenging the U.S. trade policy of the last forty years but the change proposed by Trump and part of his team cannot only be explained by election strategy, or by a protectionist reflex following the 2008 crisis. The program reflected essentially two concerns. The first was the technology and productivity stagnation experienced since the 1970s. The second was the erosion of the U.S. hegemonic position in the global economy. The United States considers China as the biggest threat to its power status.

The industrial strategy put forward by Trump aimed to manage these two concerns. On the one hand, United States started bilateral commercial renegotiation with its trading partners to impose more advantageous agreements for U.S. firms. The challenge of NAFTA and the Trans-Pacific Partnership (TPP) intended to redefine the conditions of these agreements in favor of American firms. Secondly, Trump's commercial and industrial strategy also aimed to widen the technological and industrial gap between emerging economies by limiting their ability to move up the global value chain of high-tech products and services [Defraigne (2017), pp. 34-36]. Donald Trump had focused his entire 2016 campaign around the promise of large-scale reindustrializing of the U.S. and preventing factory relocations, portraying Democrats as the architects of globalization and blaming the previous administrations for "bad" agreements.

## **5. Reasons for the Conflict Between the U.S. and Turkey**

Turkey was both directly and indirectly affected from Trump-led trade war. In March and August 2018, Donald Trump authorized steep tariff increases on Turkish-origin steel and aluminium (50% and 20% respectively). Due to sharp decrease in steel imports from Turkey, Trump decided to cut the Turkish steel tariffs by half to 25 percent again in May 2019 (Financial Times, 2019).

Recently Trump signed an executive order rising tariffs on Turkey's steel export to 50 percent again as well as halting trade negotiations with the country (CNBC, 2019). What is striking is that the share of steel accounted for only 5.4 percent of total Turkish exports to the U.S. in 2018 (Office of the USTR). This leads to consider the existence of political motivations on the American side. That Turkey's economy is based on exports especially to EU countries must also be underscored. These exports have increased dramatically after Turkey's accession to the Customs Union on December 31, 1995. The foreign trade volume of Turkey totalled 154 billion Euros in 2017 while it was 30 billion dollars in 1995 (Dinçer, 2019).

The reasons why Turkish government found itself in a commercial war launched by the U.S. can be explored upon two grounds. One of them is related to the general attitude of the U.S. President -mentioned earlier in this study. Another ground for Turco-American trade contention pertains to bilateral issues. The U.S.-Turkey relations have been marred by some political tensions which, we believe, have momentous consequences over the trade conflict between the two governments. The outlawed Gülenist movement is one of them. Turkish authorities associate the failed coup attempt of 15 July 2016 with the Gülenist Terrorist Organization/Parallel State Structure (FETÖ/PDY) and demand to their American counterparts the extradition of Fethullah Gülen to Turkey, to no avail. Relations deteriorated further following the arrest of U.S. citizens and staff members of American diplomatic services, with the outbreak of the visa crisis that lasted approximately three months. The Turkish-Iranian gold trader Reza Zarrab's testimony before the U.S., where he claimed to have bribed the Turkish Economy Minister and the General Manager of a Turkish State Bank with the approval of Recep Tayyip Erdoğan (when he was holding the position of Prime Minister) was also linked to FETÖ/PDY by the Turkish executive.

Another juridical-origin tension stemmed from Turkish authorities' unwillingness to release pastor Andrew Brunson, charged with links to both the PKK and FETÖ/PDY. Donald Trump has paid a particular attention to the case, highly mediatised it, and put much effort for the pastor's liberation. His decision to double the U.S. customs duties on Turkish steel and aluminium (making the new levels 50% and 20% respectively) has triggered Turkish currency's severe devaluation – accompanied by the boycott of U.S.-origin brands

and the increase of customs duties of American goods. Trump has thus instrumentalised the “pastor crisis” -which lasted almost one year- and used tariffs to deal a blow to Turkish economy.

The U.S. decision to cancel preferential trade with Turkey has also been problematic. Not long after the above-mentioned crisis, the two capitals have found themselves in a new confrontation: Donald Trump decided, in March 2019, to exclude Turkey from the Generalized System of Preferences (GSP) scheme, which had given Turkish exporters decades-long preferential access (exemption from customs duties) to the U.S. market. Turkey carried out an export of 1,66 billion dollars to the United States in 2017 under this program -tantamount to 17.7 percent of total U.S. imports from Turkey (Reuters, May 2019).

Once again, a rather-political-than-commercial character is perceptible in Trump's decision. In fact, the ending of the preferential trade treatment will not greatly affect Turkish exporters who are more oriented towards the European market. Figures leave no room for worry: Turkish products imported by the U.S. through GSP accounted for 1 percent of Turkey's total exports in 2017. Yet, what makes Trump's decision meaningful is the timing. The decision came while Turkish decision-makers were under Washington's pressure to give up on the Russian S-400 missile defence system, reportedly secured with a \$ 2.5 billion contract in September 2017. Despite the criticism raised by some of their allies in NATO (especially the USA), Turkish authorities stick to the agreement. One can legitimately argue that the contract marks a turning point in Turkish foreign policy that has difficulties with his Western allies and seeks to reconcile with Russia.

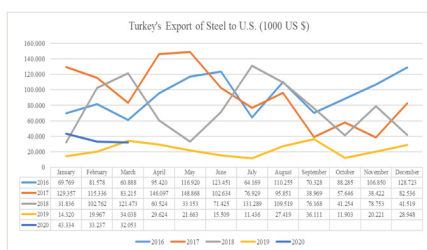
The U.S. administration has worked hard to dissuade Turkish authorities from acquiring such equipment as it was incompatible with NATO's integrated defence systems. Besides, the integration of the latter into the Turkish air defence system would allow Russia to obtain crucial intelligence on the fighter jets. For her part, Turkey has remained theoretically “open” to the American offer on the Patriot batteries, without giving up on the S-400 deal. The discord came to a dead-end in July 2019, when Turkey was officially removed from the fifth generation stealth fighter F-35 programme designed to escape the sophisticated radar technology of the S-400 (Reuters, 2019). As of October 2020, the impasse was not yet resolved.



## 6.The Volume of Steel Trade Between Turkey and the U.S.

As the foci of the trade wars, steel products suffered seriously from the trade wars due to its wide range of use from infrastructure to automotive. Trade volumes can help understand, somewhat, the logic behind it. The U.S., the world’s largest steel importer of 2018, imported **26.2 million metric tons (mmt)** of steel in 2019 with a 14.9 percent decrease from 30.8 mmt in 2018. Canada (19.1%), Brazil (18.1%), Mexico (12.7%), South Korea (8.8%) and Japan (4.3%) are top five exporter countries of U.S. imports of steel. These countries accounted 63 percent of U.S. steel imports in 2019. The value of U.S. imports decreased from the majority of sources including Russia (-55%), Vietnam (-40%), Germany (-21%), Japan (-17%), Canada (-12%), South Korea (-7%) and Mexico (-3%). Outside these countries, U.S. steel imports from Turkey decreased **76 percent by the end of 2019** (International Trade Administration, 2020).

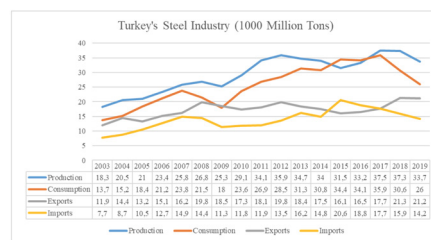
As the Figure 1 indicates, the decrease in Turkey’s steel exports to the U.S. is also remarkable in annual export values (in U.S. dollars). Turkey’s steel export to U.S. has decreased to **271 million dollars in 2019 by nearly 70 percent from approximately 900 million dollars in 2018**. As a result, the share of steel industry in Turkey’s total exports to the U.S. has decreased dramatically to **3.4 percent** by the end of 2019, while it was **10.8 percent** by the end of 2018. On the other hand, Turkey’s total steel export to the U.S. has risen by 59 percent to 108.6 million dollars in the first three months of 2020 while it was 68.3 million dollars during the same period of previous year. (Turkish Exporters Assembly, 2020).



**Figure 1.** Turkey’s Steel Export to U.S.  
Source: Turkish Exporters Assembly, May 2020

Trump-led trade tensions have also reduced domestic demand in many countries. For Turkey, the situation is all the more problematic, due to dire economic circumstances. As a representative from Kardemir 7 makes the point, the consumption in the domestic market had already fallen in the last two years, and the yearly production of Turkish steel industry has fallen from 35 to 30 million tons. It is important to observe that although the U.S.’ share in Turkish exports was between 10 and 15 percent, the contraction has been significant 8. Steel sector has significantly suffered from the trade wars 9. Although Turkey had exported 1.7 million tons of steel to the U.S. in 2017 (International Trade Administration, 2019), as of the second half of 2018, the volume of steel exports to the U.S. decreased approximately by 50 percent as a result of tariffs. Following the American protective measures, Ankara retorted by putting import quotas on steel (DW Türkiye, 2018).

In Turkey, steel production has risen from **18,3 million tons** in 2003 to reach its peak in 2017 with **37.5 million tons** and then decreased to **33,7 million tons** in 2019. As a result of rising global protectionism measures, trade diversion effects, EU quota practices and demand contraction in domestic and foreign markets, Turkey’s steel production has decreased by **9.6 percent** in 2019 compared to 2018 (Figure 2) (Turkish Steel Exporters’ Association, 2020).



**Figure 2.** Turkey’s Steel Industry-Overview  
Source: Turkish Steel Exporters’ Association, May 2020,

Although Turkey’s steel production has decreased by 9.6 percent, Figure 2 indicates that Turkey’s exports has slightly decreased by 0.4 percent from 21.3 million tons in 2018 to 21.2 million tons in 2019. Turkey’s main export market, despite a 16.2 percent decline in 2019, is still the European Union with 7.2 million tons (34% of total steel exports).

7 Karabük Iron Steel Industry Trade and Co. Inc.  
8 Interview note.  
9 Interview note.



Exports to the Middle East region, another important export market for Turkish steel, increased by 26 percent in 2019 to 4.8 million tons. Turkey's steel exports to North America declined 67.7 percent in 2019, on the other hand the country's exports to North Africa and Latin America region recorded an increase of 41.7 percent and 9.5 percent respectively (Turkish Steel Exporters' Association, May 2020). This proves that Turkey shifted its steel export more to other markets such as in North Africa and Latin America in order to compensate for the tariff-induced demand contraction in U.S. imports.

In 2019, Turkey's steel exports amounted to 21.2 million tons with a decrease of 9.6 percent compared to 2018 while the country's steel export has decreased by 11.5 percent to 13.8 billion dollars in 2019 (15.6 billion dollars in 2018) in terms of value (U.S. dollars) (Turkish Steel Exporters' Association, May 2020). This situation is due to the fall of steel prices exported to foreign markets by Turkey.

Company-based analysis supports these observations as well. Reports point to a 9.6% decrease in 2019 compared to the previous year (Turkish Steel Exporters Association, 2020). 9.6 percent decrease That is the reason why Kardemir had to lower its expectations to an approximate level of 33 million tons by the end of the year. Price volatility further exacerbated the impact of the five-million-ton production decrease. 10 The case of iron ore is illustrative in this regard: It was valued at \$445 per dry metric ton unit at the beginning of the year, compared to \$385 in September. It was possible to argue, as our interviewee did, that the repercussions of the price change will be felt more strongly at the end of the year. As expected, the executives in Çınar have also pointed to the sharp decrease of trade with the United States (which was measured around 80% in August 2019).

Contemporary Turkish history is marred with economic/financial crises, yet the country has an undeniable appeal to foreign companies. Geography, low operating costs, rich resources raise the appetite of foreign companies. In light of the fact that new multinationals plan to build their production facilities on Turkish soil, one can maintain that the perception of the country is rather positive for foreign investors. As Dikova

<sup>10</sup> Interview note.

and her colleagues note, foreign corporations have no choice but to minimize the damage and to grasp opportunities in order to hold out the crises. They also remind that multinationals can often use their capacity to redefine their markets and resort to exportation when the business environment turns hostile (2013). In addition, and in accordance with our statements above, the idea of diversifying products is pertinent to fight off the pressures of tariff wars. Yet, quite strikingly, the present study did not allow us to observe the strong desire of innovation or a reorientation towards foreign markets on the side of multinational companies – whereas it was easily perceptible in the executive levels of the domestic firms. It has not been possible for us to justify our hypothesis that multinational companies would be willing to diversify their products. As far as we could follow the agendas of the multinationals, no data signals any such effort, or any considerable attempt of marketing abroad –not even rhetorically. During our interviews, even the staff member of a multinational having a highly autonomous administrative structure has pointed to the company's lack of predisposition for new products.

In our understanding, the explanation must be based on a series of factors that determine the multinationals' preference of status quo. First, in a sector remarked by a highly integrated production process, such a diversification is very difficult to achieve. Moreover, on the demand side, there is not a source of motivation for fabricating new kinds of product. Customers are attached to (and highly dependent on) a precise type of steel product which should remain unchanged. Thus, in case of a new design, new (and heavy) investments will have to be envisaged and the producers will have to conquer different markets. The latter necessity is particularly difficult due to the competitive pressures in an 'uncharted territory'.

Another reluctance that we could witness in multinationals' attitudes is the lack of appetite for seeking new geographies to compensate for the losses provoked by the tariff wars. It was in fact highly plausible for them to intensify their efforts in North Africa, Middle East, Balkans or elsewhere as European and American customers have become much less a source of revenue as a consequence of the decisions taken in Washington. Multinational steel companies seem to be well aware that new markets mean new rules of the game.

In a land of different culture, there is also the need of new commercial organisation for the company. In other words, the settlement of a multinational in a new region of the world will be easier said than done.

The above-mentioned lack of reactions is all the more interesting in light of the highly limited price regulation opportunities. A very basic logic of production commands higher prices vis-à-vis an increase of the production costs –e.g. as a consequence of extra tariff imposition. However, the overcapacity of the steel sector in Turkey makes it difficult to include the extra cost into the market price. At present, the excess in production nears 700 million metric tons in Turkey (not to mention that the difference between supply and demand is a global problem). As the OECD Steel Committee often makes the point, excess capacity and market-distorting support measures are problematic (OECD, 2019). The “unwinnable” (Shun, 2019) trade wars, which are not good for any side involved (Capital, 2018) will only aggravate the problem.

It should be noted, in addition, that there are no signs that the main headquarters (based in the country of origin) give any orientation to opt for new varieties of products. This kind of inertia can be attributed to the fact that the executive teams in Turkey and their counterparts in the head offices have not conceived the politico-economic conflict initiated by the U.S. President as an apocalyptic phenomenon. One can conclude that they have expected an end to the rather artificial crisis in a reasonable timeframe. In other words, the trade dispute that endured in 2018 did not give an impression of an existential crisis for their companies’ operations in Turkey.

### **7. Corporate adaptation strategies to tariff wars**

Corporate executives are aware that, in a globalized world, they have to seek foreign market opportunities and diversify their products if they want to remain competitive. Exportation is one of the main pillars of growth strategy, as it leads to deeper market knowledge, customer value and commitment (Kumar, 2011). For instance, Rosenzweig and Singh maintain that firms need to adapt themselves into different environments via transfrontier trade and investment, which also lays the ground for international business behavior (Rosenzweig and

Singh, 1991). One can legitimately maintain that, due to the grim perspective laid out by the recent US-initiated tariffs, companies have found themselves in need of such an adaptation. On the other hand, one should also remember that adjusting to new market circumstances may be difficult and costly, although it is critical for companies to stay competitive and carry out lucrative activities in the long run. Thus, hypothetically at least, companies need to focus continuously on the impacts of recent geopolitical developments in an unprecedented manner and put flexibility and global trade management at the center of their business strategy (Zuvich, 2019).

It is in this vein that domestic and foreign companies in Turkey have developed their corporate strategies against the threats posed by the current international trade wars. Although such conditions seem to strain corporates’ business environment, one can also expect a potential of opportunities for companies that successfully adapt themselves. Thus, companies can alleviate risks of trade wars and ensure the sustainability of their companies’ productions (Yayla et al., 2018). Especially, according to contingency theory, to establish and maintain fit between market conditions and corporate strategy market diversification has a positive impact on this relationship (Robertson & Chetty, 2000).

At the current situation of relentless and rapid changes, one can observe cases of market-orientation in companies that operate internationally. That is because market orientation can reveal positive effects on the export performance of the company (Jaworski B.J, 1993; Yayla et al., 2018). In addition, some studies reveal the positive role that the external environment plays on the effect that market orientation has over export performance (Rose and Shohamb, 2002; Julian et al., 2014). Innovation-based product diversification upholds the expansion into new markets and the growth of firm capacity (Hitt et al., 1997). Innovation allows the producers to boost the export performance. Some studies also suggest that, although innovative and non-innovative companies face similar fixed costs to enter export markets, those with innovation activities generate more profit from exporting (Tavassoli, 2013). Besides, based on the resource-based view (Barney, 1991), product diversification helps to gain advantage from companies’ core strategic resources to exhibit higher performance (Wang, Wan and Yiu, 2019).

For this reason, it has become a driving force of economic growth for the exporters' success in foreign markets (Thangamani, 2017). At this point, it seems useful to remind that scholarly research depicts government restrictions as one factor that shapes international trade. (Javalgi et al., 2011). In a parallel reasoning, we argue that the trade war puts pressure on governments and creates a difficult business environment where the companies will have export problems unless they follow effective strategies.

The statements above resonate with the companies' general view on the micro and macro level policies Turkey must implement to counter the impact of trade wars. Çınar's position characterized by a particular emphasis on research and development is illustrative:

*The ever-increasing demand for high-quality steel is forcing all plants towards developing new products. In this period, the plants that invest in R&D and producing high-tech steel will survive and consolidate their place in the future. Therefore, the steel map of Turkey must be redrawn. Higher-end steel production must be ensured with state incentives. We must rapidly envisage new investments to meet this objective.*

## 8. Method: Sample and Procedure

Based on these conceptual grounds and the landscape portrayed above, the main objective of the study is to reveal how the strategic behaviors of Iron and steel companies in Turkey have been affected by the recent tariffs imposed on Turkey's steel industry by the Trump administration. The latter aim is, to understand whether these companies in Turkey could acquire positive outcomes due to their adaptation strategies? In this perspective, three main questions below have been addressed to the participants.

*Research Question 1:* What are the company's adaptation strategies to cope and comply with recent tariffs imposed on Turkey's steel industry by the Trump administration?

*Research Question 2:* What are your predictions about the future of the steel industry? Despite the negative aspects of tariff wars, is it possible to expect positive outcomes for steel producers in Turkey?

*Research Question 3:* What are the main reasons for the protectionism decisions taken by the USA? (Political, economic, etc.)

Undoubtedly, trade wars caused serious harm to the steel sector. One of the highly integrated industries, it forms the core of the industrial society. Moreover, it is an essential raw material for all industrial branches such as construction, automotive and machinery (Worldsteel, 2018). Since the last decade, Turkey has become one of the major players in the world of Iron & Steel production industry. This is also one of the strategic sectors which have an underpinning effect on Turkey's economy. In this industry nearly 50 large scale companies operate in Turkey (Türkiye Cumhuriyeti Ticaret Bakanlığı, 2018), amongst which Erdemir, Kardemir, Çınar Boru Profil, and Yıldız Iron and Steel stand out with the largest market share (nearly 75% of domestic production). Kardemir (Karabük) iron and steel company was built in 1939. Kardemir (Karabük) iron and steel company was built in 1939. According to Istanbul Chamber of Industry's "Turkey's Top 500 Industrial Enterprises" survey, Kardemir is at 34th ranks. Erdemir company, built in 1960, is at the 11th rank in the same survey and Çınar Boru Profil company is at the 268th. Younger than other companies, Yıldız Iron and Steel keeps increasing its production and export volumes gradually.

Using the "purpose sample" method (Teddlie and Yu, 2007), we carried out interviews with the companies' staff members. Since our research involves case studies, semi-structured interviews are accepted as an appropriate method for examining the shift of business strategies in this period. In the case study method, data is usually collected through semi-structured in-depth interviews, document reviews, archive record analysis and observation (Johnston et al., 1999). In this study, besides interviews, we have also investigated the sectoral reports related to trade wars. For analyzing the data, descriptive analysis was utilised. This method is one of the methods where the conceptual structure of the research is clearly determined beforehand (Elliot & Timolak, 2005).

As Yin (1994) suggested to eliminate subjective judgments we used various methods including collecting data from different sources and presenting the draft interview reports collected from the participants and getting their approval. In terms of external validity, the findings of the research, by its nature, are limited to the sample size. The reliability of research is related to the repeatability of the research results (Yin, 1994). For this reason, all the steps followed in the research were carried out in detail, adhering to the interview protocol presented in Annex-1.

Prior to data collections via interviews, we tried to communicate and to explain the purpose of the research to the corporate communication specialists of fifteen companies. Before interviews, we shared the interview questions with the companies' specialists, and seven of them (7/15; 46%) accepted to participate in the research. The semi-structured interviews have been realized with these companies' managers (n=4), and with three (n=3) participants of international steel companies. Five participants were managers of the sales and marketing department, and the others (n=3) were specialists in their company. Two specialists were women, the managers were all men. The participants' ages were between 32 and 48. Due to administrative procedures to follow and the busy timetables of the relevant staff, it took nine months to complete the interviews (between May 2019 - January 2020). Online interviews have lasted between 35 to 42 minutes.

Representatives of the national companies that we have privileged in our study have all touched upon the efforts of seeking alternative foreign markets and diversifying their products. Kardemir has preferred to import less in the iron and steel sector to prevent foreign dependence while aiming at the domestic market with high added-value products. The attempt to export to Algeria has been short-lived, and it has focused its attention to the domestic market instead –with innovative and high-end products in construction and automotive sectors. Çınar, for its part, has tried to build commercial relations with Yemen, Africa, South America and Far Eastern Countries, despite the low prospects of success. To overcome the challenges of protectionism, the company has put stress on bilateral trade agreements, new regions for export and the domestic market.

## Conclusion

The fact that Donald Trump attaches a crucial importance to the trade deficit in bilateral relations is the (only) reason why the trade wars have become an item on the international agenda. Ironically, by putting his slogan of “America First” –which is ostensibly harmful for the American interests– Trump has created a large-scale issue that he can only defend with a simplistic discourse that fails to veritably expose the real motivations. Primarily, the “war” he wages can be placed on protective inclinations. Yet, a closer look allows to perceive political connotations that accompany the latter.

The same logic can explain the fluctuations in Turkish-American relations as well. Trump's imposition of tariffs on Turkish steel on “national security” grounds makes no sense to any serious observer. In all likelihood, the loss of five million tons of steel production in Turkey or the currency crisis related to a diplomatic crisis had serious consequences for Turkish people. Yet, whether taxing Turkish steel or removing Turkey from the GSP would contribute to the prosperity of American citizens is debatable. One can legitimately question if the U.S. can reap the benefit of the “battles” the president fights in the international arena.

A more important question concerns the harm done by the crisis. As mentioned earlier, corporate response to the situations of crisis is expected to adapt to the new situation or change the destination of the products. Foreign companies have placed themselves closer to the first strategy, with an adaptation process that did not involve outstanding strategic decisions.

It seems necessary to remind the difficulty of finding new markets especially due to the problem of overcapacity in the steel sector. Besides, the advantageous pricing in Turkey –stemming from the abundance of raw material and the strong depreciation of Turkish lira after the crisis with the U.S.– makes the politico-economic crisis affordable and provides comfort for the multinationals. One should also take into account the financial history of Turkey. In modern times, the country has demonstrated various macroeconomic weaknesses. Turkish economy would survive the trade wars that were meant to come to an end, after all, because they would prove harmful for all the parties involved anyway.

## Appendix: Interview Schedule

Company	Department	Position of the participant	Participants	Time of the Interviews	Interview Record
Yildiz Iron Steel Industry	Strategic Marketing & Corporate Communication	Manager	G. A.	24.05.2019	Written response via e-mail
Çınar Mühendislik Makina Metal	Sales & Marketing	Manager	S. Y.	24.06.2019	Yes
Kardemir (Karabük Iron Steel Industry )	Sales	Manager	O.E / F.Ç.	10.12.2019	Yes

Arcelor Mittal	Information Technology	Specialist	O. A.	22.12.2019	Yes
Aperam	Sales	Vice Sales Manager	S.D.	02.01.2020	Yes
Erdemir Iron Steel Industry	Sales	Specialist		05.01.2020	Yes
MMK Metalurji	Export	Specialist		17.01.2020	Yes

4) How do you predict the future of the steel industry? Despite all the negative aspects of tariff wars, is it possible to acquire positive outcomes for steel producers in Turkey?

## Appendix 1.

### Interview Protocol

**Date of Interview:** \_\_\_\_\_

**Interview Start Time:** \_\_\_\_\_ **End Time:** \_\_\_\_\_

**Name of interviewee:** \_\_\_\_\_

**Position :** \_\_\_\_\_

### EXPLANATION / INTRODUCTORY SPEECH

Thank you for taking your time to meet with us today. The objective of our study is to explore through semi- structured interviews how the strategic behavior of Turkish steel firms is affected by the recent tariffs imposed on Turkey's steel industry by the Trump administration. In this context, we planned to ask you four main questions. These interviews, which may take approximately 30 to 45 minutes, depending on the flow of the interview, will be recorded if permitted. The purpose of this interview is not to get private information about your company and/or the staff members, but to reveal your company's strategies towards and experiences of the trade war. The information obtained in this process will be used exclusively for academic purposes. The support you will provide in this study will be a valuable contribution to the management literature. If it's agreeable to you, we can start our interview now.

### Interview Questions:

- 1) What are the positive and negative effects of trade wars on your steel industry in terms of export rates to the USA?
- 2) What are the main reasons for the protectionism decisions taken by the USA? (Political, economic, etc.)
- 3) What are your company's adaptation strategies to cope / comply with this situation?

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