The Long Game on Tariffs: Positioning to Win Beyond Uncertainties

The proposed implementation of new, punitive tariffs by the Trump Administration has garnered significant attention from global media and businesses alike, raising questions about the potential impact on international trade and companies' global, interconnected supply chains.[1] As companies evaluate which actions to take and when to act, the potential pitfall is over-indexing on responses to tariffs alone.

Tariffs should be viewed as just one of the multiple worldwide disruptions facing corporate leaders. While more immediate in potential impact, U.S.-imposed tariffs (and retaliatory measures from other countries) have proven consequential since 2018, but are not the most disruptive force facing businesses today. Playing the long game, companies must strengthen their supply networks for more transformative disruptions, such as rapid technological advancements, persistent skilled labor shortages, ongoing geopolitical disruptions, potential global logistics network disruptions and other industry-specific shocks.

2025 Landscape: Tariffs Add to the List of Broader Disruptions and Challenges

POTENTIAL TARIFFS AND THEIR IMPACT FOR U.S. IMPORTERS AND CHINESE EXPORTERS

The Trump Administration has already postponed tariff plans at multiple points since re-entering the White House on January 20: first delaying from Day One to February 1, then delaying Canada and Mexico tariffs to March 4, and as of March 6, granting additional delays on Mexico and Canada tariffs.[2] While proposals and timelines continue to evolve, the new administration has moved forward with 20% incremental tariffs on Chinese imports. The 25% tariffs on Canadian and Mexican imports are paused, but still possible.[3] Estimated impacts of these tariffs are $96 billion annually in incremental tariff revenues for the United States, with retaliatory measures proposed from each of the three impacted exporters.[4]

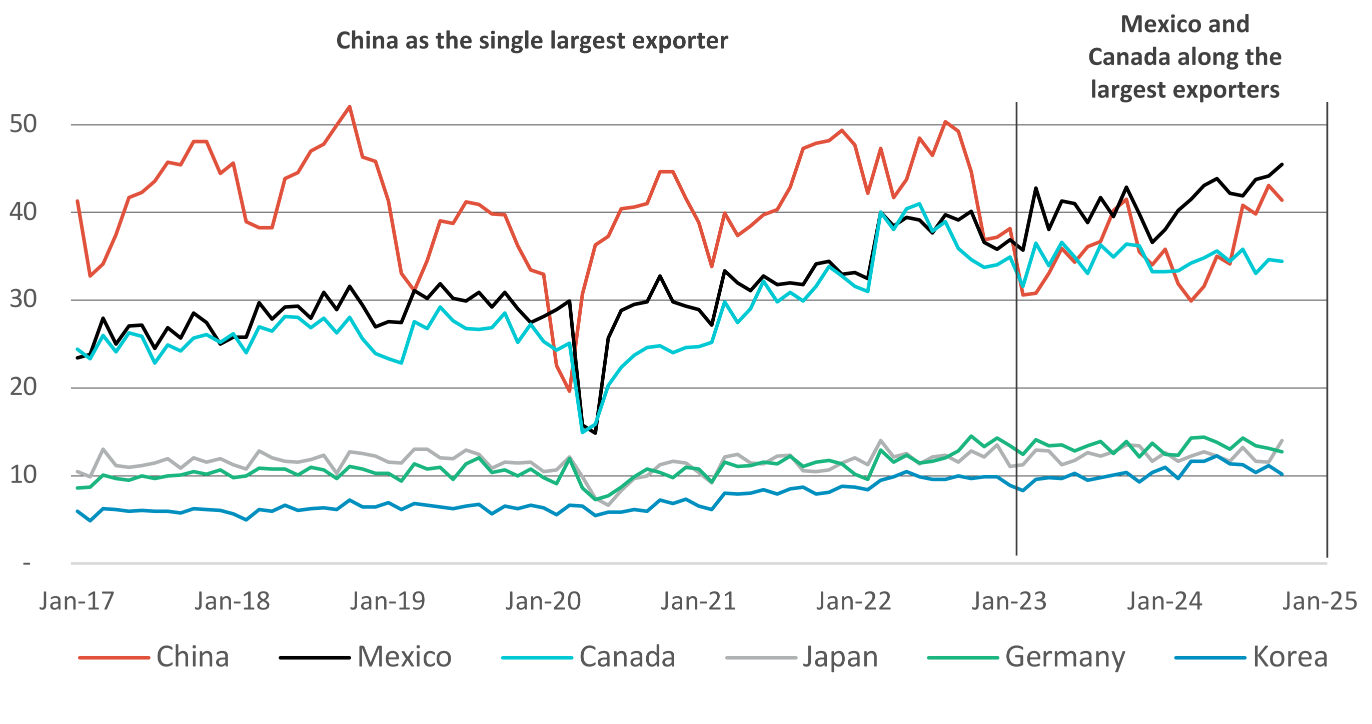
For comparison, the combined impact of the 201, 232 and 301 tariffs enacted in 2018 and 2019, resulted in approximately $79 billion in annual punitive tariff revenue.[5] As shown on the graph below, China maintained its lead as the largest exporter to the U.S. through 2022 (with the exception of initial COVID-19 lockdowns in 2020), while U.S. importers faced these incremental tariffs. Canadian and Mexican imports began increasing from pre-COVID trends in 2022, with Mexico finally overtaking China as the top exporter to the U.S. in 2023. Together, these three trading partners now account for ~$120 billion in monthly imports to the United States (~40% of all U.S. imports).

While earlier tariffs had a punitive effect solely on Chinese exporters, the recently proposed actions across China, Mexico and Canada would further constrain U.S. importers' ability to maneuver in the near- and mid-term, even more so than in the late 2010s. The first round of President Trump's tariffs took nearly four years to have meaningful shifts in trade from China to Canada and Mexico. During that time, U.S. imports from other countries remained stable, demonstrating an inflexibility in absorbing trade from the U.S.'s largest partners. Case in point: from 2021 to 2022, Canada and Mexico increased their monthly exports to the U.S. by more than the *total monthly exports from Germany, Japan and South Korea combined*.

With limited maneuverability, we anticipate the following impacts for U.S. importers and Chinese exporters:

For U.S. importers, tariffs will be inflationary in their impact. Even if tariffs were applied uniformly as proposed, their impact would disproportionately affect specific industries, given current market conditions and sector-specific reliance on imported goods. For example, automotive, durable consumer goods and textiles maintain a high level of production outside of the United States, and would see significant inflationary pressures on products

Monthly U.S. Imports by Country of Origin (Top 6 Countries) (in USD Billion)



already at elevated price points.

For Chinese exporters to the U.S., tariffs have already triggered changes to networks for U.S.-bound goods. Many Chinese companies have diversified their production footprint to other countries, pursued cost reduction initiatives to maintain global competitiveness and expanded sales in additional markets to de-risk reliance on the U.S. market alone. While the U.S. remains the world's largest economy and a key export destination for Chinese manufacturers, this trend of reducing reliance on the U.S. market is expected to continue and accelerate if further punitive tariffs are enacted.

While $96 billion in incremental government revenue generated from tariffs would be substantial, they demonstrated under President Trump's first term not to be drastically impactful on trade and economic output, and not the largest potential or known disruptors to global trade or economic activity. Just within the last four years, the global economy was adversely impacted by blocked shipping lanes in the Suez Canal (approx. $80B in lost economic output), the ongoing Russia-Ukraine conflict (projected 1% reduction to global GDP) and the COVID-19 pandemic (over 3% global GDP reduction in 2020 alone).

GLOBAL DISRUPTORS FACING BUSINESSES TODAY

Tariffs remain a significant topic for global trade. However, any tariffs imposed by the U.S. government, along with retaliatory measures from other nations, must be considered in the broader context of other significant disruptions and challenges companies face today. These include:

Technological Advancements: The accelerating development and deployment of artificial intelligence, additive manufacturing, automation and other technologies pose significant questions about future investments in supply networks.

Skilled Labor Shortages: Despite advancements in technology, companies worldwide are facing talent shortages in skilled labor, with even greater pressures on roles that are difficult to automate or offshore. Addressing the growing demand for skilled trades and technical manufacturing roles against the backdrop of a widening skills gap will become a significant challenge for companies' long-term growth.

Geopolitical Disruptions: The past year has seen significant changes in the Middle East (Gaza, Lebanon, Syria), along with the potential repositioning of Western support in Ukraine. These developments highlight the unpredictability of global events and their broader impacts on commerce beyond regional borders.

Global Logistics Network Disruptions: Over the past several years, transportation networks have experienced more frequent and significant disruptions. Factors such as climate impacts on operations for the Panama Canal, the Ever Given incident that blocked shipping lanes in the Suez Canal, vessel rerouting to avoid Houthi militias in and near the Red Sea, and coordinated port strikes in the U.S. forcing redirected traffic and port congestion have all disrupted global logistics.

Industry-Specific Shocks: Tier-1 and Tier-2 suppliers' investments and reliance on OEM's growth is leaving these companies more vulnerable to large disruptions if OEMs face hiccups. For instance, production delays at aerospace OEMs have left suppliers scrambling with lower volumes and limited options for immediate repositioning in the market. In the automotive sector, rapid shifts in U.S. consumer preferences are compelling companies to reevaluate investments in electrification and to revise the payback on investments made following the initial surge of demand from U.S. Federal Tax Credits amended in 2022.[6]

These disruptors have the potential to be far more impactful to an industry or company than tariffs alone. While companies may understandably look for short-term actions to offset or mitigate the impact of tariffs, these actions should be taken with a longer-term planning horizon in mind.

MITIGATING POTENTIAL TARIFF IMPACTS: ACTIONS TO CONSIDER

Potential Mitigation Actions for U.S.-Imposed Tariffs

By design, tariffs have limited options to fully neutralize cost impacts without implementing significant structural changes to what is purchased, and from where it is imported. While there are broader actions companies should consider to address global supply disruptors, they should first focus on considering strategies specifically aimed at mitigating tariff impacts alone:

Near-Term Actions:

1. **Assess and model current tariffs exposure.** With unpredictability and uncertainty around tariffs, companies should thoroughly evaluate their current exposure and model potential financial impacts.
2. **Evaluate existing network design to reduce tariff and tax burdens.** Companies can make near-term adjustments to the existing structure to address greater tax efficiencies and recognition within their supply chain, with particular focus on multi-tiered transactions (using the First Sale for Export principle) and expanding use of the U.S. Foreign Trade Zones program. Under both, the details of a tariff matter – and they may limit or exclude these as viable options. Understanding the detail of your supply chain, the commodity classification and origin of your products, and how any new tariffs impact those products and services, is essential to reliably evaluating potential gains from employing these tools.
3. **Accelerate productivity capture and pricing negotiations to limit costs absorption.** Suppliers and buyers may work to drive productivity gains to offset impacts from tariffs (independently and collectively), as well as look to negotiate cost-sharing arrangements. Where productivity gains cannot offset tariffs, importers must ultimately determine which costs can be absorbed, and which costs can be passed on to customers.

Long-Term Actions:

1. **Diversify global production footprint.** Investing in new supplier relationships, production facilities and regionalized/localized hubs offers greater resilience and reduces exposure to tariffs. It may also increase operating costs and complexities, requiring significant investment of resourcing, capital and time to unwind and re-wire existing supply chains. Companies should carefully assess implications of new tariffs on product categories and country of origin, new total landed costs, market opportunities, resilience in supply and other factors such as trade agreements, infrastructure and skilled labor. Companies adopting this approach include CFMOTO[7], a motorcycle manufacturer with production in Mexico mitigating current U.S. tariffs on Chinese goods. CFMOTO is also evaluating U.S. production to navigate potential tariffs on goods from Mexico. Auto suppliers, like Bosch[8], are starting to examine the possibility of 'relocating some of [their] production closer to the US to avoid the impact of the tariffs.[9]
2. **Expand into alternative markets:** Companies can offset sales and margin pressures in tariff-impacted markets by expanding into other regions, reducing reliance on any one market. Expansion can happen in parallel or as a result of the efforts in innovation and diversification in production footprint that allow the business to win new market. Xiaomi[10], for example, has become a leading smartphone brand in Europe, South Asia, Southeast Asia, and Latin America, while focusing on other consumer electronics in the U.S. It claims to be a Top 3 bestselling smartphone brand in over 50 countries.
3. **Invest in innovations for sustained competitive positioning.** The challenges of tariffs offer companies the opportunity to transform and gain a sustainable competitive edge. Innovation drives lasting competitiveness, helping companies win customers and alleviate pricing pressures, though it requires careful investment. Companies should consider investing in automation, technological advancements and digitalization tools (e.g., AI-driven planning) to improve efficiency and streamline operations. Companies can also evaluate organizational structure, process and workforce skills to ensure agility and long-term success. According to a whitepaper published by World Economic Forum in late 2023[11], Generative AI tools allowed companies like Unilever and Haier to achieve double to triple-digit improvements across every step of supply chain and production system, such as decrease in inventory, increase in labor productivity,

and a reduction in power consumption.

PLAYING THE LONG GAME: ACTIONS TO CONSIDER FOR BROADER DISRUPTIONS AND RISKS

To win in 2025 and beyond, business leaders must plan for the broader trade and competitive landscape. While proposed tariffs could result in tens of billions of dollars in annual economic impact, these pale in comparison to the trillions of dollars of impact felt from broader, more persistent global disruptions, namely the impacts of rapid technological advancements, persistent skilled labor shortages, ongoing geopolitical disruptions, potential global logistics network disruptions and industry-specific shocks. When future-proofing supply chains, leaders should evaluate actions across these five areas as part of comprehensive strengthening against disruptions:

1. **Position supply networks with localized production for market.** This could include partnering with third-party manufacturers, or brownfield or greenfield development or expansions of facilities in existing networks. Companies should also seek localized sourcing of materials to create production "hubs" for greater optionality and service in supply.
2. **Expand supply chain transparency for multi-tier visibility on supply origination.** While undertaking supply network localization, establishing clarity further up the value chain is essential for understanding potential disruptions. Working with your entire supplier base to understand the origin of materials and services, and maintaining the global view for the value chain provides greater intelligence for decision making in crises.
3. **Build talent capabilities to respond to crises and challenges, including adoption of AI and automation and investment in critical skillsets.** When disruptions do occur, the winners will often be the fastest actors. By having regional positioning of supply, coupled with global visibility to the value chain, companies can have the necessary information readily available to act. Investing in the right skillsets, in the right operating model, could be the difference of having first mover advantage or watching competition beat you to the punch.
4. **Accelerate innovation cycles from traditional industry cycles.** As technologies become more prevalent in creative and research-focused domains, companies must break from historic trends and timelines on innovation cycles, reducing investments and providing greater agility to react to market trends and variations across geographies.
5. **Evaluate holdings and assets within this dynamic landscape.** Whether seeking aggressive expansion, strategic tuck-in acquisitions for rapid capability additions, or divesting underperforming assets, companies must evaluate regularly how their assets are positioned in this constantly changing environment. Conducting expert-supported deal diligence and transaction support is essential to maximize value on M&A activities, and ensure proper returns from strategic actions.

Acting on these five areas is essential for businesses to unlock additional value from their supply chain while mitigating impacts from uniquely disruptive forces. While tariffs will continue to gain outsized attention, the companies focusing on addressing the broader threats to supply chains will position themselves to win the long game. Winning beyond 2025 requires dedicated action to position networks for more localized production; to establish end-to-end value chains; to invest in the right talent and capabilities for critical skillsets; to accelerate innovation cycles; and to regularly evaluate holdings for

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Endnotes

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