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Transformation Through Technology

US starts its journey disconnecting global supply chains

The newly imposed tariffs around US will create inflation in US, declining growth, higher interest rates, and thus less investments in the country.

The effect of supply chains, selling into US will result in lower allocations of goods, combined with attempts to share tariff harms on profits with their customers in the US.

Further, they will address other markets quickly to substitute falling demand in US market.

For supply chains sourcing from US they will start to buy from alternative countries and regions.

For raw materials and commodities, the change of the supply chains is faster to deploy. For make to measure products and market customized products it will take longer times. Both B2B and B2C, and more or less all categories.

Capacities for non-US manufacturers will in the transition time for supply chain changes be reduced until US falling demand is restored elsewhere.

For US companies with low import fraction there are opportunities to increase prices and margins as bottlenecks will set in inside US and carving out competitors with higher import fractions, now hit by retaliation tariffs on US trade partners.

For US companies with high international sourcing and selling, the reduction of capacity will happen, as demand will fall both in the home market and for the export sales.

Non US Corporates with US plants are said to be protected against tariffs, but they will probably stay put and "wait and see" regarding further investments.

The new US GOV is constantly surprising with measures against "non US players", thus impact on foreign owned companies could suddenly happen, i.e. forced home market allocations, forced US board, extra tax, or capital restrictions.

Companies do not like uncertainty in markets for sales and sourcing, and that is where US is now categorized, the supply chain network has started to plan for that.

For the US companies they will gradually work in a demand and supply network more based on home market partners.

Once the global supply network has been reshaped with less US business, it will take a rather long time to bring US back in the picture.

This is because it is a big task to change international supply chains in practice, whether done in small, medium or large companies, whole categories or parts thereof. The big puzzle must be laid in a new way, to get the businesses running in a stable way again.

When supply chains start to react in big numbers of quantity changes in demand for the shipping lines, the allocation of transport capacity will be disturbed and lead to higher transport cost, as seen dramatically under COVID and partly during the Suez blocking.

Landed cost will increase on top of tariffs, thus further slow down the economy, probably most in the US, but also elsewhere. The shipping sector will take time to adjust to new patterns, maybe 1-2 years.

Leadtime will increase again as there will be "holes" in the availability caused by reduced manufacturing capacity and lost or reduced allocations of inbound materials done out of strategic or commercial reasons.

It will be more difficult to maintain the tact and synchronized production and delivery for all product lines - added to these delays the longer transport transit times during transition period for the shipping network.

** The author of this content is a seasoned practitioner in international supply chain management and now acts as an independent advisor.*