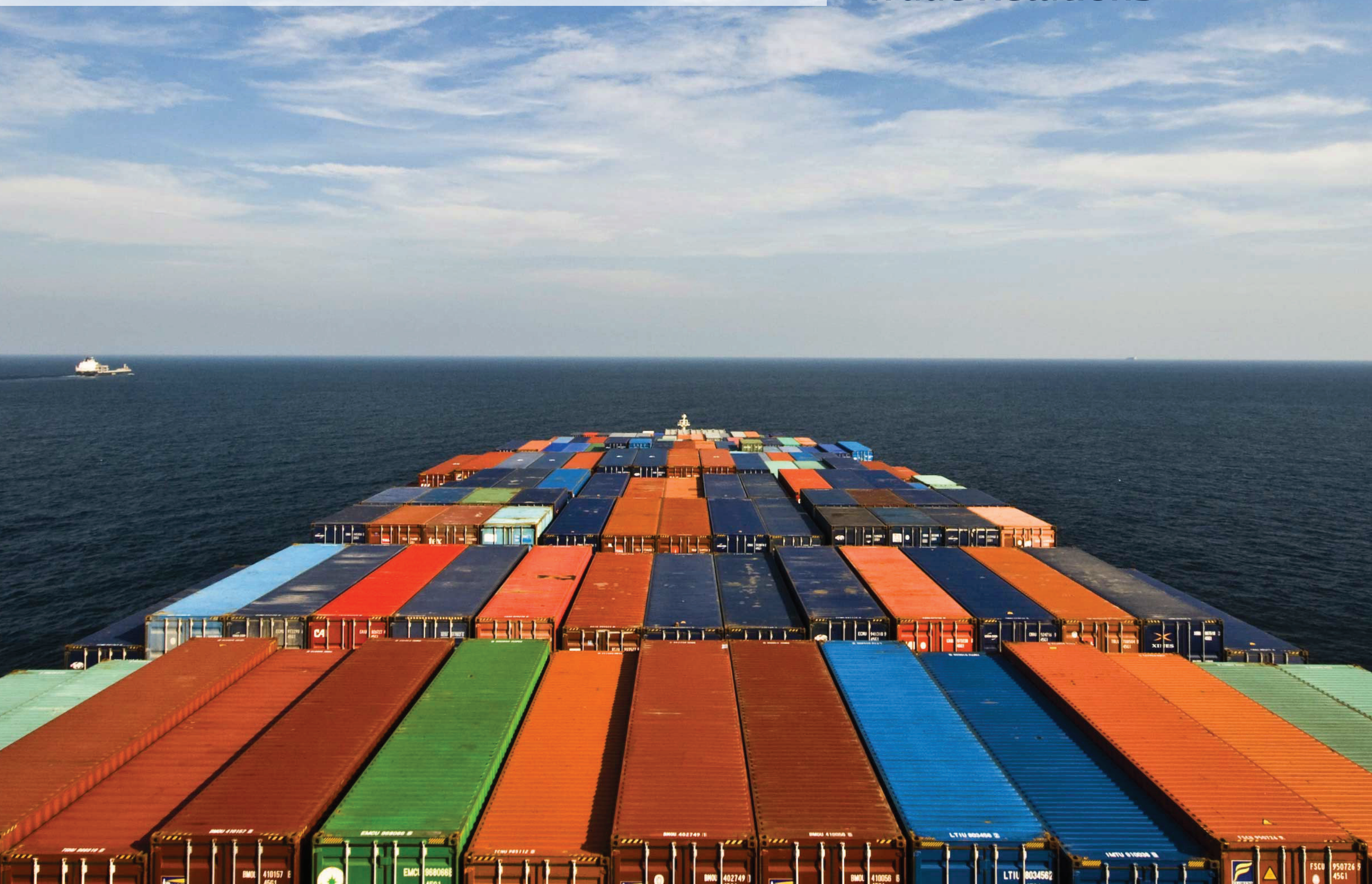
Escalating Tariff Wars, Disrupted Supply Chains:

How to Mitigate the Fallout of International Trade Relations



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The Circuitous Path to Modern Trade and Commerce

Steel has always been an important currency of industrial manufacturing and has been shaping the world economy over many decades. In the aftermath of WWII, its scarcity coalesced a broken and war-weary Europe into the European Coal and Steel Community (ECSC), the precursor of the EU.

Along with aluminum, steel has reemerged once more in an interlocked, globalized economy as a point of contention between two hemispheric super powers — China and the U.S. — as tariff wars continue to escalate. With NAFTA, ASEAN, and the EU being dragged into the fray, the global fallout has continued to increase in magnitude.

Only time can tell where the wide-ranging escalation of tariffs in the U.S.-China trade war will lead. For now, everybody seems to have an opinion on tariffs. Exponents see them as a corrective to the existing free trade policies that, by defending the markets of one country, promotes fair play and encourages local industries to grow. Opponents argue that, while serving as a countermeasure, tariffs worsen the issues they are meant to solve by disrupting industries, destroying jobs, and raising prices.

Historically however, tariffs have created some serious rifts in the global trade landscape. For example, in 1930 the United States raised tariffs on 20,000 imported goods, stirring retaliatory duties from other countries. The subsequent trade war saw U.S. imports and exports decline to alarming levels, worsening the Great Depression.

During this period, degrading international relations and subsequent joint efforts made by nations to tighten trade regulations worsened the global economic balance, leading to the outbreak of the World War II. The post-war turbulence forced the allies to form a multilateral trade framework that would loosen aggressive protectionist policies that defined the 1930s. The result? The General Agreement on Tariffs and Trade (GATT)[1] — an international trade agreement that was signed by 23 countries and came into effect from 1st January, 1948. It was the first joint attempt to establish a common code of conduct that would progressively liberalize cross-country trading.

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Will History Repeat Itself?

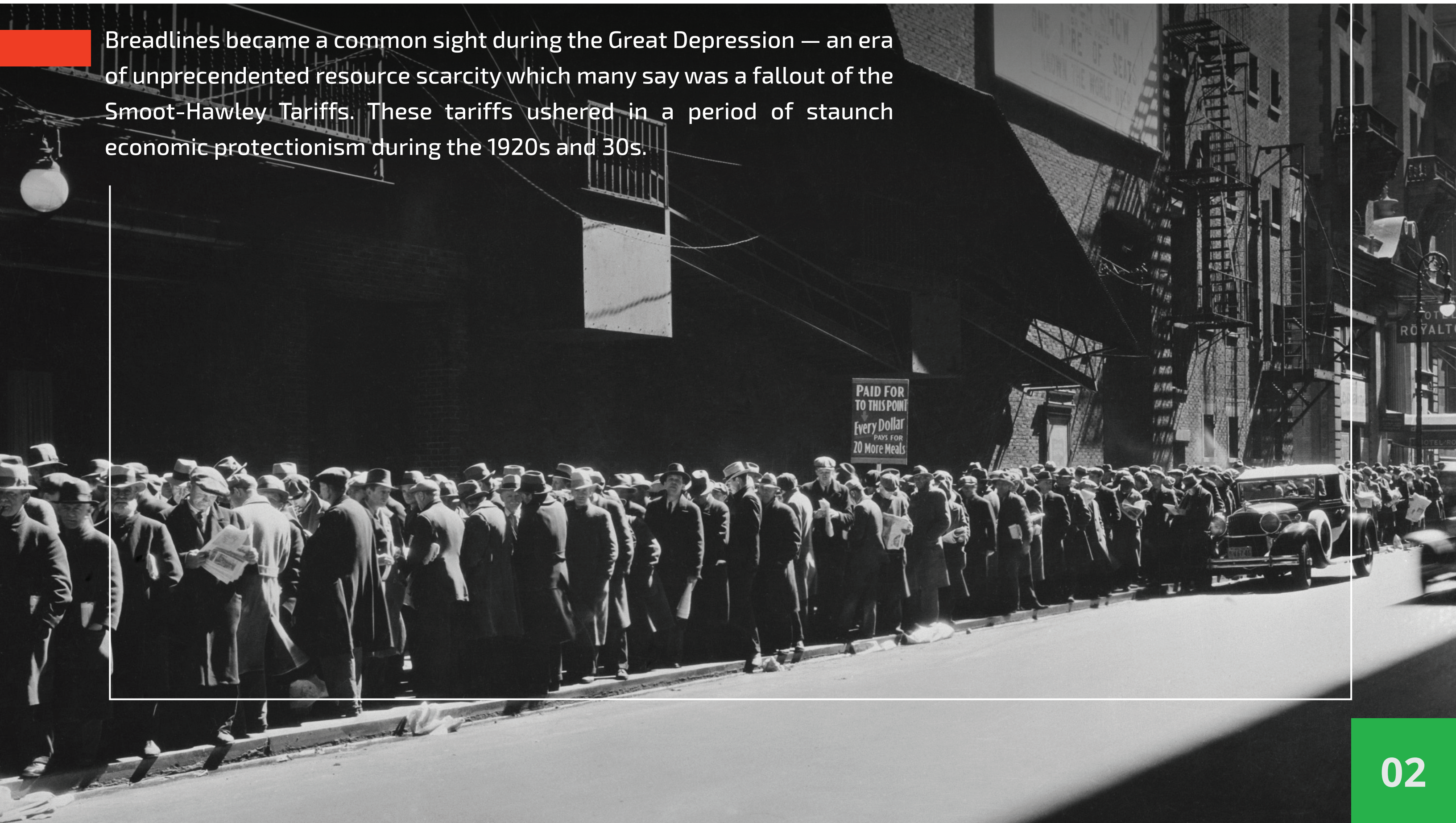
The past seven decades have been witness to comparatively resilient and peaceful international trade dynamics. With time, trade barriers have disappeared and nations have become more open to tariff cuts and new regional, bilateral, and multilateral trade agreements.

This invisible yet reliable framework enabled companies to broaden their supply chains, allowing procurement teams to conveniently source lowest-cost supply options across the world. With trade largely liberalized, there was no serious apprehension of the fallout that changing trade dynamics would create.

While globalization has always had its share of criticism, over time, staunch detractors of this trading model gradually reached the zenith of power — notably the U.S. President Donald Trump. His rigid protectionism strategies based on the argument that "unfair trade policies" have harmed American workers stoked fear of yet another trade war.

The stage has been set for escalating trade tensions since January 2018, when Trump declared new tariffs on washing machines and solar panels on the grounds of national security. After that, a string of tariffs has constantly made headlines —

25% levied on steel imports and 10% on aluminum imports from Canada, EU, and Mexico in June, followed by a 10% levy on $200 billion worth of Chinese goods in September.[2]



Breadlines became a common sight during the Great Depression — an era of unprecendented resource scarcity which many say was a fallout of the Smoot-Hawley Tariffs. These tariffs ushered in a period of staunch economic protectionism during the 1920s and 30s.

China levied a set of counter tariffs in retaliation, prompting the U.S. administration to publish a list of 6,301 imported items worth $200 billion which will now face a 10% tariff. In August, the U.S. president upped the ante again by declaring that the U.S will withdraw from the World Trade Organization if it doesn't "shape up".[3]

Several U.S-based organizations have voiced their concerns over the supply chain disruptions that this current trade atmosphere is expected to create. In June, renowned motorcycle manufacturer Harley declared that it was expending higher manufacturing costs because of the retaliatory EU tariffs. The Wisconsin-based company revealed that it would shift the production sites planned for the EU to manufacturing units it has built in Thailand, Brazil, and India.[4] This announcement came less than a week after another automobile giant Daimler AG slashed its profit forecast citing the growing trade tensions.

From global manufacturers like Harley to regional tech startups, companies are visibly scrambling to revamp supply chains that were built for a time when stable, open-ended traded policies were the norm. Should this tit-for-tat continue over the next few years, it is certain that organizations will have to prepare for new and less visible models of protectionism that can be equally disruptive for supply chain operations.

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The Fallout

Protectionism is a complex game: one action has a domino effect of seemingly endless retaliations and reactions that are difficult to anticipate. All we know for certain is that supply chain networks will be impacted by these tariffs and counter tariffs.

The magnitude of the impact will be higher for companies that have complex global supply chains. But even organizations that source domestically may be in for a rude awakening, if the materials in question are imported and therefore, have heavy tariffs levied on them.

Some supply chains are vulnerable to disruption in both directions. For instance, when the U.S. increases tariffs on solar panels imported from China, a portion of the cost may be borne by U.S. suppliers that export parts and components to a Chinese solar power assembly unit. For companies that import and export, this is a double whammy.

Companies with seasoned, decade-old supply chain networks are also likely to be adversely affected. For one, established supply chains cannot be shifted to a different country or facility overnight, especially if the organizations have multi-year contracts with their suppliers.

Sectors like healthcare are also sensitive to such disruption, since a change in suppliers may be subject to regulatory approval. In fact, in some cases companies have no option but to stick to existing arrangements as there are no alternative suppliers.

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Flexible Technology-Driven Supply Chains

Crafting a lean and agile supply chain can be the answer for organizations that want to adapt to this new protectionist world. However, this is easier said than done.

53%

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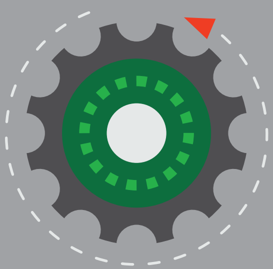
A Deloitte survey reveals that 53% of companies are directly dependent on their suppliers.[5] Tariffs may actually compel these companies to rope in new domestic supply partners while configuring their profiles and connections for secure order exchange, shipping, invoicing, and payment data verification.

Legacy systems with custom coded features cannot support fast onboarding of new supply partners. What's more, such systems often end up creating disparate data sources that hinder visibility into processes. Managing modern-day supply chains require platforms that can facilitate cloud-based B2B application integration, thereby enhancing partner communication and transparency.

It's evident that organizations have no control on stringent protectionist measures that impact supply costs. However, what's under their control is the technology that they can use for informed decision-making and process control. Whether they want to shift some operations overseas, source raw materials from a different country, or explore the use of alternative tariff-proof materials, technology can offer the flexibility they need to seamlessly operate supply chains across time zones, continents, and countries. Here's how:

Streamlined Overseas Operations



With organizations like Harley planning to relocate a part of their operations overseas to avoid import tariffs, it's clear that offshoring may be part of the answer. At the same time, organizations need to make sure that distributed processes function in tandem and without disruption. This involves substantial research and planning to answer questions such as which geographical locations are most promising or how will the organization effectively manage these distributed locations and operations.

Again, technology can help. A centralized cloud-based solution that can easily integrate with other systems will allow procurement teams to manage end-to-end supply chain and financial inventory. However, technology adoption is still low. A recent survey conducted by Business Continuity Institute reveals that a substantial 63% of organizations do not leverage technology to track, analyze, and monitor the performance of their supply chain operation.[6]

Optimized Sourcing

The rise of cross-border trading necessitated stringent supplier auditing and compliance verification. As a result, major corporations have already teamed up with technology solution providers to simplify supplier selection and onboarding processes. But the complexities of these new trade policies require procurement functions to embrace a more systematic approach to analyzing supply chain spend and achieving long-term cost savings.

With digital sourcing, companies can automate invoice auditing, thereby gaining visibility into additional surcharges resulting from tariffs. A supply chain solution should immediately flag surcharges that weren't communicated or previously agreed upon.

Improved Decision Making

With new tariffs being rolled out often, organizations can no longer afford to count on legacy-on-premise software solutions. Many of these solutions provide little visibility on processes, have no collaborative capabilities, and lack next gen functionalities like API integration.

By adding an agile, cloud-based supply chain management platform to the mix, organizations can excel in areas like contractor management, risk management, and compliance. A distributor scouting new markets or new supply partners in order to offset new tariffs can leverage such solutions to quickly derive insights on new contractor and supplier requirements.

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Adapting to a Protectionist World

The tariff wars can be credited for having achieved one thing: making strategic and seamless supply chain management a priority in the boardroom once again.

As global trade evolves further and newer tariffs come to the fore, procurement teams need to be mindful that complacency comes at high costs. Waiting to react to a policy change or delaying technology implementation can have serious implications for organizations engaging in cross-border trade. After all, two of the most influential players in the world economy might choose to go head to head for their own interests — but businesses need to figure out how to offset the damages.

References

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