

TOPIC FOUR – TARIFF WORKAROUNDS REGARDLESS OF WHO WINS THE ELECTIONS

The Tariff Wars are tearing up the world and it seems everyone is in on the act: US v. China / China v. US; US v. Europe / Europe v. US...and to a lesser extent other global regions. With the looming US presidential elections in Fall 2024, as far as tariffs go its likely not going to make a difference whether Biden or Trump is elected – both have circled China as a leading trade competitor deserving of a fresh look at new targeted tariffs. Notably, geopolitical competition between the major global trading blocks now see tariffs as the weapon of choice to even the economic playing field. This is a huge issue for global manufacturers of tangible goods adding from 25% to 100% to the cost of imported products. Corporate planning is further complicated by tariff rules that continually change with each new administration and global crisis.

The choices available to manufacturers mostly have been to reset supply chains and strategically locate manufacturing facilities in key markets where customers are located. But as tariffs change, if manufacturing facilities are in markets targeted by unanticipated new tariffs then the problem is worse not better.

The solution might be to establish a more flexible supply chain feeding into final assembly operations located in key regional markets close to the largest groups of customers in those regions. For consumer and industrial tangible product companies a commercial solution that seems to work is (i) the fabrication of inexpensive component parts in a central hub (a “Central Hub”) which (ii) are then shipped to regional fulfillment houses (“Regional Fulfillment Centers”) that assemble component parts into complete products sold to customers within the same regions/markets where the Fulfillment Centers are located. The idea is (i) to assure manufacturing consistency through the Central Hub, (ii) reduce tariffs by shipping cheap disassembled component parts to Regional Fulfillment Houses in markets where customers are located and (iii) Regional Fulfillment Houses assembling and shipping to end-use customers. To cover primary markets Fulfillment Houses might be identified in each of US, EU and Asia. Clearly Fulfillment Houses must be selected based on quality and ability to scale. This supply chain and regional assembly approach either works or not based on the product, markets and supply chain required. If it does then the commercial agreements between the production entities involved need to address the following:

- Pricing – Component parts must be designed to have little independent value, ideally with all components fabricated by a single Central Hub for scaling and quality control.
- Assembly & Fulfillment Flexibility – Necessary to accommodate scaling to regional market growth
- Dedicated Resources – Consider dedicated teams and options to direct hire

Topic References:

1. “Trade Wars: Strategies for Mitigating Tariff Risks” – This PwC report directly aligns with the article’s discussion of supply chain adjustments to navigate tariffs. It provides strategies companies can use to restructure operations and supply chains to mitigate tariff impacts. (<https://www.pwc.com/gx/en/issues/assets/trade-war-strategy-paper.pdf>)
2. “How companies are trying to survive the tariff fight between the U.S. and China” – This CNBC article gives real-world examples of companies shifting manufacturing out of China and using tactics like regional fulfillment centers, which supports the approach outlined in the article. (<https://www.cnbc.com/2019/08/29/how-companies-are-trying-to-survive-the-tariff-fight.html>)
3. “Supply Chain Restructuring as a Response to Trade Tensions” – This Baker McKenzie client alert provides legal and operational guidance for companies looking to restructure supply chains, very relevant to the regional fulfillment center model described. (<https://www.bakermckenzie.com/en/insight/publications/2019/03/supply-chain-restructuring-as-response>)
4. “Managing Supply Chain Risk in the Era of Protectionism” – This Harvard Business Review article discusses the challenges tariffs pose and need for supply chain resilience, backing up the rationale for the regional assembly approach. (<https://hbr.org/2020/07/managing-supply-chain-risk-in-the-era-of-protectionism>).
5. “Beating the Tariff Increase with Supply Chain Restructuring” – This Supply Chain Brain article directly reinforces the core strategy of realigning supply chains and manufacturing footprints mentioned in the article. (<https://www.supplychainbrain.com/articles/30057-beating-the-tariff-increase-with-supply-chain-restructuring>)