# Tariffs pose biggest threat yet to complex supply chains

## Description

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*Geopolitical risks and a fragmenting multilateral system haven't forced businesses to significantly shorten their supply chains. Tariffs might.*

Growing pressures in international trade haven't undermined complex supply chains, but the threat of a tariff war between major economies will present the global trade system with its greatest challenge yet.

Measures of pressure on global supply chains spiked during the pandemic, when businesses were exposed to long delays and serious interruptions. The Russian invasion of Ukraine, and the European energy crisis that followed, compounded a narrative that long, complex supply chains posed a significant risk that businesses needed to address.

Five years later, however, lengthy supply chains ––the backbone of international trade––have so far held up against a changing geopolitical context. There has been no major reconfiguration of supply chain length, nor a decline in the size of global trade.

Businesses are certainly adapting, but they are not retreating from distant partnerships.In a recent survey carried out by The Conference Board among C-suite executivesglobally, more than 75% of respondents said they would alter their supply chains in thenext 3-5 years. That increases to more than 80% in France, Germany and the UK, and90% in Italy.

European business leaders point to the need to avoid disruption, reduce costs and green supply chains. But, according to the survey, only 14% of businesses are thinking of friendshoring, and even fewer are thinking of reshoring or exiting from China (both at 8%). Instead, diversification and the use of AI are the preferred instruments to achieve resilience, cost effectiveness and greening.

It seems that businesses see the need to organize their supply chains more efficiently, but are not ready to give up on the cost benefits that global markets bring. The threat of global fragmentation and sanctions, a moribund multilateral system, and concerns about grave geopolitical risks have not dissuaded European (and other) businesses from continuing to integrate their activities into global markets.

**Threat of tariffs**

The emergence of tariffs and global trade wars might change that. With costs at the heart of business leaders' concerns, tariffs will have an immediate effect on their balance sheets, and all the economies involved, including the US.

It's too early to say definitively whether supply chains will be shortened in response, but evidence of change is slowly emerging.

Nvidia indicated this month that it would work to bring a large chunk of its manufacturing back from Asia to the US. Similarly, Apple has announced a $500bn investment in the US over a period of four years, fearing what US tariffs will do to its products that are assembled in China.

European businesses are sure to take similar steps if the language of escalation leads to outright trade wars. The pressure is already being felt in certain sectors such as defense: whereas two-thirds of EU defense procurement used to go to US firms, the bloc is now trying to remove this dependency by excluding US military equipment producers. The European Commission's 'Readiness' program aims to remove Europe's defense dependency on the United States by 2030, while simultaneously excluding US defense contractors from the supply chain. While the motive is different, the trend is clear:produce in Europe and buy European. Tariffs can only accelerate that trend.

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