LOGISTICS

More pain to supply chains as US-China trade starts shrinking

Synopsis

When Trump announced a 90-day pause on steep reciprocal tariffs, exporters thought it was a breather, rushed to send goods to US shores, to make sure they avoid tariffs, much before the tariff-pause ends in July. However, as US-China trade is already beginning to fall, it signals rising uncertainties for global supply chains.

I'm sailing away
Set an open course for the Virgin Sea
...we'll search for tomorrow
On every shore
-*Come Sail Away* by American rock group Styx;
album: The Grand Illusion (1977)

The 90-day pa**us**e on trade tariffs announced by US President **Donald Trump** was seen as a breather by exporters to the US market. Businesses, big and small, thought this is an opportunity to prepare better for tomorrow, assess their exposure, and look at other shores beyond **China** and realign their sourcing strategies. But much before the tariff pause ends on July 9, early signs of a global **supply chain** reset are already being seen.

As per reports, US port activity is declining and consequently, many large retailers and manufacturers have already stopped shipments from China. American retailers who had initially stocked up, are now concerned that the on-going US-China trade war will soon lead to empty shelves as Chinese shipments to the US are dwindling. Preliminary projections by the World Trade Organisation suggest that bilateral trade between the two economies could fall by as much as 80%. The squeezing bilateral trade between the two nations has broader implications for global supply chains.

Before we dive further, let's take a brief look at who's most vulnerable to **Trump Tariffs**.

Export-heavy manufacturers: Manufacturers in countries that rely heavily on exports. Think of those in electronics, car parts, and machinery. As their products get more expensive abroad, demand drops and profits shrink.

SMEs: Small- and medium-sized businesses in countries that import those goods. Many of them depend on affordable materials to stay in business, and when prices hike, they either eat the cost or lose clients. It's a lose-lose situation for them.

Customers: Eventually, since no one wants to carry the weight of increased costs, it all cascades down to the consumer. Prices rise, purchasing power reduces, especially when there are no alternatives to what's being taxed.

Global supply chains in a state of flux

Pause or no pause, the worst to be impacted by **Trump** Tariffs is the global supply chain. What was once a smooth, cost-efficient system, would become the victim of unpredictable delays, reroutes, and renegotiations all around. It's nightmarish for supply-chain planning, as there

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is no certainty about what will happen after those 90 days.

Suppliers with long-term relationships with their US customers don't want to mess up their inventories. Therefore, supply-chain managers are in a rush, trying to fulfill orders that are already in place, ensuring that cargo reaches the American shores by the July 9 deadline when the 90-day pause ends.

"The US is the number one priority right now, while shipments to the other countries have taken a backseat. The point is to maintain a healthy relationship within the trade limits," says Venkateswara Rao, head, logistics, at APAR Industries, which has a diversified manufacturing base spread across electrical and metallurgical-engineering products. The Mumbai-headquartered company is a leading supplier of aluminum conductors, cables, and lubricants to over 140 countries.

On the other hand, the importers and the companies with US manufacturing units that depend on China for raw materials are in a limbo. Their new orders from Chinese suppliers have dried up. Everyone is in a wait-and-watch mode because companies are hoping for a settlement to work out between the US and China, which still faces 145% tariffs on most goods.

"Companies generally keep 30 to 60 days of inventory, keeping in mind the time taken by ocean shipments. But if this disruption, because of tariffs, is going to continue for a longer term, then sourcing raw materials and specialised components will get very tough," head of procurement at a leading medical-technology company, which has a manufacturing plant in the US, told *ET Prime* on the condition of anonymity.

As of now, he is not accepting any price increase from the suppliers due to tariffs on China, as the company is not yet prepared to sell the same to hospitals at a 50% higher rate. However, there is a growing concern that prolonged disruptions in supply and manufacturing could lead to significant imbalances in demand and supply. This will also create a shortage of medical equipment in the market.

Looking beyond China

There are procurement heads who view the current situation as a big opportunity for companies in Europe and other markets to source goods from China at a lesser price. "Chinese suppliers will be willing to cut down prices to sustain their manufacturing capacity and find customers for their surplus production," says Pankaj Tuteja, country head, India, at China-headquartered Dragon Sourcing. The company helps its clients across industries find the best suppliers from multiple countries and serves a good number of European clients.

On the other hand, irrespective of whether they decide to buy from the China market or put it on hold, most companies have kick-started the process of finding alternative suppliers outside China as everyone fears that Trump could escalate tariffs on Chinese imports to as high as 200%. While small- to medium-sized companies are agile enough to immediately start looking outside China, larger firms with deep-rooted investments in China are stuck.

With inventory levels typically covering just one to two months of demand, procurement managers are being flooded with enquiries — especially from US clients looking to disengage from China and shift their manufacturing base to other countries, including India. "We are getting many enquiries for China alternatives in the personal care sector, wellness and homes categories, safety products, electronic products, and toys, where China is a world leader," says Tuteja of Dragon Sourcing.

"We have had to hire more resources to handle this kind of workload because it is a panic situation in the US now. No one knows whether this is going to be a temporary thing or going to stretch to the longer run," he adds.

Finding alternatives to China is, however, not easy. China, which is the world's largest manufacturer, contributing to over 30% of the global manufacturing output, can make low-quality as well as top-notch quality products. Its manufacturing prowess goes beyond just competitive pricing.

Why finding a China alternative won't be easy

The difficulty level in finding alternative procurement destinations depends on the product category. So, in categories like garments, plastic bags, and automobile components, finding alternatives is easier. For agricultural products, many countries in the far east offer viable options. But there are thousands of product categories where Chinese suppliers have an unparalleled edge.

In high-tech categories such as electronics, conductors, or industrial products, finding alternatives to China will be very difficult.

India and Bangladesh are alternative markets for garments but largely in knitted and woven garments. However, when it comes to specialised categories like leather garments, China remains the clear leader.

To be sure, India does have strengths in niche textile segments, such as terry towels. Manufacturing clusters like Solapur in Maharashtra (known as the Towel City of India), Tirupur in Tamil Nadu, and Ludhiana in Punjab are good sourcing hubs. But if you look for micro-fibre towels, options are limited. Here, China is a leading producer.

"Thousands of product categories are either not produced elsewhere at scale, or if they are, the quality and consistency still fall short of what China can offer. So, many companies exploring alternatives to Chinese suppliers have found it difficult to make the switch," says Tuteja of Dragon Sourcing.

A ray of optimism

Supply-chain managers call the 90-day pause only a realisation of the US government that the reciprocal tariffs were a big blunder. It also reflects Uncle Sam's intent to backtrack, as the fact remains that the US depends greatly on other countries for its supplies.

In 2024, China alone accounted for 16.5% of total US goods imports. The US imported USD438.9 billion worth of goods from China, while exporting USD143.5 billion, resulting in a substantial trade deficit of USD295.4 billion.

Given its huge consumption base, the US is the largest market for most countries. Therefore, governments across the world will make amendments to ensure that they level up to the expectations of Trump which is to buy more from the US market and reduce the import duties on American products.

Supply-chain managers are hopeful that governments will use this time to find settlements. “No one is ready to absorb these exorbitant tariffs. As responsible corporate citizens, we are waiting for the [Indian] government to discuss with its counterparts and come to a settlement. Otherwise, it will be a big blow for the industry,” says Rao of APAR Industries.

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A Ja 6 days ago

When jokers, clown and criminals are in power around the world, especially countries like America and India, world has to become boiling pot, chaos will become long term prospects and unfortunately experts will be dancing on assumptions and guesses, far from reality.

Ranchhodlal Shah 6 days ago

if. Trump and America can stand firmly together, China will be begging for trade with USA, at zero duty.

Nan Di 9 days ago

You are only telling one side of the story. All the past US administrations have been passing the buck and kicking the can. Is the trade deficit and US debt sustainable? Trump had to take these drastic steps it is too late to try alternatives

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