CLIENT ALERTS & INSIGHTS

Geopolitical Risk for Supply Chains - Emerging Challenges and Their Mitigation Strategies

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Geopolitical risk is emerging as one of the greatest challenges facing domestic and international business today. It has risen from a boardroom issue to one drawing the awareness and attention of both personnel and the general public. These days everyone knows the word "supply chain" and has some general understanding of tariffs, sanctions, and even congestion. In a world where there is no longer a zero-risk solution the task becomes one of crafting pragmatic strategies that adapt and get business done while mitigating negative effects. Recognizing how we got here and some of the go-to tools will help along the road ahead.

Global Relative Risk Spectrum - Supply chain professionals have grown accustomed to navigating a spectrum of risk across the world. Some countries are riskier for a company's lines of business and others carry less risk. Until recently the risk-side of the spectrum was book-ended with Iran, North Korea, Cuba, and for some trade Russia. China was less risky from the perspective that most trade outside of critical technologies was permitted although cost volatility presented risk due to tariffs. Vietnam, Cambodia, and even countries like Italy were still less risky although claims of customs duty evasion and forced labor were a challenge. Canada, Mexico, and the European Union stood on the safest side of the risk spectrum.

The risk-spectrum worldview drove nearshoring, friendshoring, decoupling, and all the other euphemisms for geopolitical risk strategies. The worldview also ended in November, 2025, when then President-Elect Trump announced intention to impose tariffs on our North American allies Canada and Mexico. Today the European Union has also moved to the risk-side of the spectrum. The only region where sourcing or sales do not suffer realized or potential risk today is the domestic United States. The threat of retaliatory tariffs on imports of raw materials and other inputs for domestic production challenges even that safety zone.

Enterprise planning and investment face challenges in this environment due to a level of uncertainty that threatens even 30 years of NAFTA and then USMCA investment. The simple truth is that we are now working through a volatile and higher cost operating environment. Our toolbox is full of approaches for navigating this era of ever-present and non-zero risk. The task for professionals is to choose the right tool for the task and to deploy it strategically - understanding that there is no one-size-fits-all supply chain.

Supplier and Customer Diversity Strategies - Concentration risk is a well-known concept in business. Today many companies are applying the same concept to their procurement and sales organizations. A few years ago it was not uncommon for China to hold a singularly large place in procurement and even sales. Today a number of companies have dramatically expanded supply and delivery lines to avoid the cost volatility seen beginning with the Section 301 tariffs of 2018. This is helpful for both minimizing acute risks (such as the sanctions swiftly placed on Russia in 2022) and for more generalized risk of country-specific tariff actions. The strategy can also help to diversify traffic lanes so that the Houthi Rebel attacks in the Red Sea, or low water levels in the Panama Canal, are less impactful to the supply chain.

Risk-Appropriate Contract Strategies - Thoughtful approaches to balancing risks in contracts are also emerging today. The days of using boilerplate purchase orders as the only documentation for a purchase or sale are over. Many of those were not negotiated let alone reviewed. Instead, there is now a need for clarity between contracting parties on exactly what expectations will be due to geopolitical risk. On its most basic level this involves determining how shocks to the system will be communicated between parties and what the effect will be. This is similar to the root cause analysis and corrective action plans developed in some technical trading relationships - although focused on outside factors rather than performance alone. Certain clear risks also merit their own provisions. Those include the risk of U.S. Customs detention and seizure, the risk of dramatic change in duty rates, and the risk of a party's swift appearance on denied parties lists.

Indexing and Dynamic Rate Strategies - Cost volatility was one of the most widespread challenges in the early days of the global pandemic. One of the tools leveraged during that time is again appearing in some trading relationships today. Some are recognizing that variance is a fact in this day and age that requires pragmatic approaches to keeping parties honest and working with one another. For some industries there are go-to price indexes that can serve as a guide for whether and when price adjustments are appropriate. This essentially normalizes the cost of a good or service against the relative change in the same or similar purchases. It is not unlike a PPI or CPI cost adjustment provision with a definitive cap. The rationale for this approach is acceptance that costs may be higher, but if they are, the sell-side is compensated to account for higher operating costs and the buy-side doesn't pay more than it would otherwise pay going to market. Clearly establishing how these rules apply, when they apply, and the ways in which parties will communicate through that process is nearly as valuable as the benefit of price visibility.

Sanctions Risk Mitigation Strategies - Companies in the United States face unique compliance obligations when doing business in certain parts of the world. Economic sanctions impact domestic operations and in many instances the foreign branch or subsidiary operations of domestic companies. Awareness training is a critical factor for procurement, sales, and financial professionals but it is important to take that effort many steps further. We are not living in a time where merely producing a "policy" to collect dust is sufficient. Real-time screens of new customers, their banks, and parties to outbound shipments is just as crucial as proper item-level export classifications and clearance. It is also available in many ERPs or other operating systems and in stand-alone platforms. When done well in risk-appropriate fashion these efforts can empower personnel rather than hinder their performance. They also limit company and personal risk for the civil and criminal penalties that may follow violations, let alone negative press.

Many "known unknowns" exist in this operating environment that make calmly maintaining perspective a critical characteristic. We want to be strategic and not reactive. We want to work in reality and not rely on wishful thinking. We understand that contingency plans may be needed or they may need to be modified. We know that unforeseen circumstances can still exist. In truth, this is the time when supply chain professionals shine by crafting the best solution for their enterprise based upon experience and the best available data.

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