



Services



Trade Working Capital Viewpoints

Global Trade in Transition: *Tariffs Reshape Supply Chains, Strategy, and Financing*

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As shifting US trade policies drive uncertainty and recalibration across sectors, Citi clients worldwide are adapting supply chains, financial strategies, and investment plans to navigate a more fragmented and volatile global market.



The tariffs introduced by the new U.S. administration represent a significant change in U.S. government policy. After more than 75 years of [unchanged] rules-based trading, and almost 40 years of accelerating globalization, the world has entered a new, more fragile trading era.

The scale of tariffs, and rapid-fire changes in policy – referred to as “Liberation Day” – has created uncertainty.

In the short term, businesses face market and FX volatility. Looking further ahead, slower growth and higher inflation seem inevitable during times of uncertainty. Over the long term, companies must adapt to an unprecedented structural shift in trade and capital flows.

Trade Flows in Flux:

What the Market is Telling Us

While the final shape of the tariff regime is unclear, companies are reassessing their business models and supply chains risk mitigating strategies.

Many companies initially responded by front-loading; the number of shipments are now decreasing given trade is slower amidst uncertainty. As buyers and sellers reassess risk, contract disputes – especially under cost, insurance and freight terms, which expose importers to price fluctuations – could increase. In turn, firms are adjusting trade terms or overhauling deal structures.

Companies are broadening supplier networks. The China-plus-one model may lose relevance amid heightened scrutiny on rules of origin and growing pressure for domestic production. New trade corridors are also emerging as companies reroute shipments through certain countries, though the fluid situation complicates this strategy.

Below is a summary of some of the [Q1/2025] strategies Citi's Trade clients are adopting to manage tariffs, and how Citi Trade and Working Capital Solutions is supporting Citi clients and these strategies:

Agriculture Sector Views:

US tariffs are expected to trigger retaliatory measures from key partners, placing agricultural exports at risk. US corn and soybean exports could lose further global competitiveness.

Some global agribusinesses are shifting supply chains (as they have during previous disruptions). Inventory financing is under consideration to help manage volatility and preserve flexibility.

Aviation Sector Views:

While cargo typically accounts for 5–25% of airline revenue, North Asian carriers are more exposed due to the outsized role of e-commerce – which accounts for nearly half of cargo volumes. The impending removal of the small parcel tariff exemption is set to hit cross-border e-commerce flows hard.

Load factors were weak in early 2025, reflecting both softer demand and pre-tariff inventory stocking in late 2024. Tariffs have added to concerns in an industry still recovering.

Aircraft lessors are also proceeding with caution. One major leasing firm is delaying fundraising, citing risk-off sentiment and volatile markets.

Supply chain disruptions are a risk, with aircraft manufacturers potentially facing delays due to limited inventory. Any production slowdown would further constrain aircraft availability, weighing on fleet expansion plans across the sector.

Consumer and Healthcare Sector Views:

Companies across Asia and North America are bracing for supply chain disruptions, shifting demand, and rising costs.

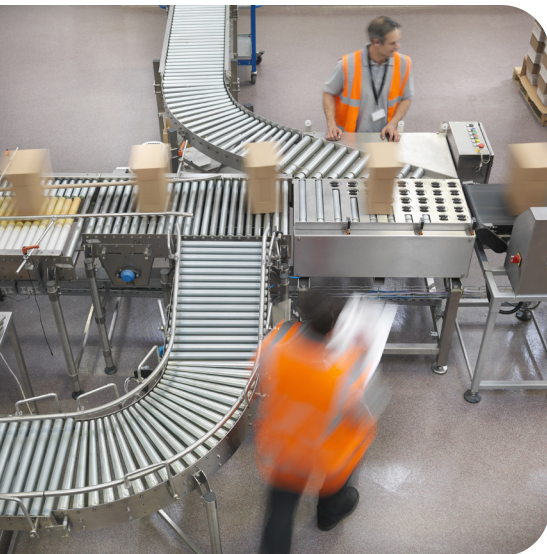
The removal of small parcel tariff exemptions in China, effective from early May, will likely impact e-commerce platforms reliant on cross-border shipping.

India is likely to experience pressure on food, pharmaceutical and jewelry exports, while retail and apparel exporters that rely heavily on US consumers are especially exposed.

Companies sourcing from Cambodia and Vietnam face particular pressure due to those countries' tariff levels (currently suspended): contingency planning is underway. High proposed tariffs on Vietnamese exports could have secondary effects on neighboring countries: South Korean firms have a significant presence in Vietnam, for instance.

In North America, companies are adjusting financial strategies in anticipation of slower demand and costlier trade. Consumer-facing firms are extending supplier financing programs to preserve working capital, while others have been building inventory buffers over recent months to get ahead of potential disruptions.

The broader sector outlook remains cautious. Consumer demand for US-branded goods outside the US is showing signs of softening, and price sensitivity is becoming more apparent across categories. Companies are monitoring tariff impacts, assessing cost structures and considering alternate sourcing or financing options.



Manufacturers and logistics firms appear reasonably positioned to absorb the initial impact of new tariffs, thanks to diversified sourcing strategies and flexible pricing structures.

Energy Sector Views:

The exclusion of crude oil and natural gas from new US tariffs aims to protect domestic energy costs, but markets remain wary. Oil prices fell sharply on concerns that broader trade measures could slow global growth and curb fuel demand.

US liquefied natural gas exports hit record levels in 2024, with key shipments to the Netherlands, France, Japan, South Korea and India. Yet LNG trade remains sensitive to tariff shifts, which could ripple through domestic pricing.

In India, one solar panel manufacturer heavily reliant on US exports is refocusing on local sales. With limited ability to pass on higher costs, export volumes are expected to decline. Like many, the company is awaiting news of potential exemptions.

Industrials Sector Views:

Manufacturers and logistics firms appear reasonably positioned to absorb the initial impact of new tariffs, thanks to diversified sourcing strategies and flexible pricing structures.

One US-based manufacturer with heavy reliance on Canadian raw materials has had time to adjust following earlier tariffs on metals and Canadian imports. The company maintains relationships with traders that source globally, giving it flexibility. Its contract model – which passes metal costs to clients – insulates it from price shocks, reducing immediate risks.

In Canada, shipping and logistics players that service industrials are also adopting a cautious but confident stance. One operator notes its liquidity position is sufficient to navigate short-term volatility, reflecting a broader sense of preparedness across parts of the industrial supply chain.

Metals Sector Views:

US steel and aluminum imports already under existing Section 232 tariffs remain unaffected by the new regime. However, the duties continue to drive up input costs, with domestic steel prices projected to rise 15% in 2025.

Steel import volumes edged higher in 2024. Finished steel imports also rose, suggesting sustained demand despite elevated prices. Aluminum imports remained substantial, underscoring the metal's role in a wide range of industrial supply chains.

Copper and gold have been excluded from the latest tariffs given their critical industrial and financial functions. Copper prices are already near record highs, propelled by tight supply and surging demand linked to renewable infrastructure. Gold, meanwhile, continues to hit record highs as investors seek safe-haven assets.

In Canada, mining firms are reassessing investment plans, with some signaling caution due to ongoing uncertainty.

Mobility Sector Views:

Complex global supply chains and weakening demand in the mobility sector – particularly in electric vehicles (EV) – mean significant disruption is anticipated.

South Korea's auto industry is especially exposed, with nearly half its vehicle exports bound for the US. The slowdown in EV sales adds further pressure to a sector already navigating a challenging transition. Thailand's automotive industry is also expected to feel the strain, reflecting broader regional vulnerability.

Some suppliers are shifting production to the US in response to the changing trade landscape. One European firm is expanding its US manufacturing footprint but faces hurdles around capital investment and talent – highlighting the balancing act facing companies.

Shipping Sector Views:

Shipping is bracing for a turbulent period as tariffs prompt traders to adjust routes and timing.

Spot market volatility is expected to increase, particularly for vessels operating without long-term contracts. A potential flashpoint is the risk of port tariffs, which could target Chinese-built or Chinese-owned vessels.

Regional carriers in Asia stand to benefit from rerouting. Increased activity may offer a temporary uplift for operators positioned along alternative trade lanes.

Tech and Communications Sector Views:

Firms in Asia and North America are rethinking supply chains, liquidity, and investments in response to expanding US tariffs and potential retaliation.

Semiconductor producers are shifting supply routes, prioritizing regional production – fulfilling more US orders from South Korea while reserving China-based capacity for local demand. Though semiconductors are exempt from reciprocal tariffs, their role in consumer electronics creates significant indirect exposure and it has been suggested that they will face targeted tariffs in the months to come.

Indian electronics manufacturers have gained a relative advantage due to lower tariffs compared with China and Vietnam (based on suspended measures). However, uncertainty over end-market demand – particularly from the US smartphone segment – and the temporary smartphone exemption has clouded the outlook. Liquidity planning has intensified, with some firms turning to receivables-based financing.

Chinese firms face tariffs on both imports and exports – putting pressure on supply models and prompting a reassessment of leasing and as-a-service offerings, especially for high-value segments such as GPUs.

Across Southeast Asia, weakening demand is leading to reduced smartphone component orders, while some global firms are shifting capacity to Mexico or exploring limited US reshoring.

Country-specific measures are compounding the pressure. South Korean semiconductor exports are currently exempt but may face future tariffs. Vietnam's electronics sector is vulnerable as it faces one of the highest reciprocal tariffs globally (currently suspended), with ripple effects for Korean firms operating there. Taiwan remains protected for now – though persistent tariffs may push production toward the US.

In North America, companies exposed to China and Europe are exploring export redirection, with Singapore emerging as a potential hub. Investment plans in countries such as India and Malaysia are on hold, pending greater clarity.

While rerouting and re-invoicing are underway, large-scale supply chain shifts remain unlikely in the near term. Service firms with exposure to regions with retaliatory tariffs (such as the EU) face rising indirect risks, and many are holding back on new investments as they weigh restructuring costs against tariff impacts.



Six Ways Companies Are Managing Tariffs

Note, the information contained herein is not intended to be an exhaustive discussion of the risks, strategies or concepts mentioned herein or tax or legal advice. Readers interested in the strategies or concepts should consult their tax, legal, or other advisors, as appropriate.



1. Expanding US-Based Production

Many companies are fast-tracking efforts to move production closer to US end consumers – through capital expenditure, foreign direct investment, and acquisitions. A global pharmaceutical company is investing at least \$27 billion in four new US manufacturing sites,¹ while a South Korean headquartered auto manufacturer plans to invest \$21 billion to expand US operations.²



2. Shifting Production to Lower-Tariff Countries

Companies dependent on suppliers in tariff-exposed markets are exploring relocation to countries with more favorable trade terms – including South Asia, Mexico, and Eastern Europe – based on supply chain fit and market access. Uncertainty over future tariff levels, however, complicates these decisions.



3. Ramping Up Output at Existing Facilities

Instead of building new sites, many companies are increasing production at existing facilities outside high-tariff jurisdictions. A multinational aerospace and defense company, for instance, is scaling up output across its 11 US sites, which already employ 6,000 workers, to take advantage of existing infrastructure and mitigate exposure.³



4. Diversifying Sourcing and Supplier Base

Procurement strategies are being overhauled to reduce reliance on any single source. Companies are developing multi-sourcing models and shifting inputs toward lower-tariff regions. According to the Canadian Federation of Independent Business, about half of its members are currently seeking or evaluating new supplier relationships.⁴



5. Building Strategic Inventory Buffers

To navigate volatility, some companies have front-loaded shipments and built inventory ahead of anticipated disruption. A Taiwanese multinational computer and electronics manufacturer, for example, has been stockpiling products in US distribution centers since Q4 2024 to buy time for future production shifts.⁵



6. Preserving Cash to Absorb Volatility

Increased costs and uncertain demand are prompting many firms to focus on liquidity. Excess cash provides a buffer against margin pressure and potential declines in sales, and enables greater flexibility to respond to supply chain or pricing shifts.

¹ <https://www.reuters.com/business/healthcare-pharmaceuticals/lilly-plans-invest-27-billion-new-us-plants-trump-threatens-pharmaceutical-2025-02-26/>

² <https://www.hyundai.com/worldwide/en/newsroom/detail/hyundai-motor-group-commits-to-us-growth-with-usd-21-billion-investment-0000000918>

³ <https://www.telegraph.co.uk/business/2025/03/23/rolls-royce-explores-shifting-engine-making-to-us-to-count/>

⁴ <https://www.biv.com/news/businesses-look-for-new-suppliers-shift-production-in-response-to-tariffs-1033808>

⁵ <https://www.taiwannews.com.tw/news/6057533>



Companies are exploring risk mitigation tools and trade finance options as they face *rising inventory, idle capacity and working capital challenges.*

Solutions and Applications

Companies are exploring risk mitigation tools and trade finance options as they face rising inventory, idle capacity and working capital challenges. The following solutions are potentially valuable:

Payables Finance

- Free up working capital to fund capital expenditures and absorb cash flow shocks
- Improve supplier liquidity by enabling earlier payment

Accounts Receivable/Sales Finance

- Unlock working capital to support operations or provide a cash flow buffer
- Support sales growth by aiming to improve cash position
- Discuss potential ways to reduce counterparty risk during periods of operational uncertainty
- Restore working capital tied up in inventory purchased beyond typical cycles (supply chain finance also applicable)

Letters of Credit

- Facilitate procurement of equipment with added transaction certainty
- Build trust with new suppliers in unfamiliar geographies
- Secure access to strategic supplies
- Consider how extended payment terms may enhance working capital

Trade and Working Capital Loans

- Address cash flow gaps between supplier payments and customer collections
- Avoid liquidity constraints in jurisdictions with restricted currencies
- Potential finance inventory purchases beyond normal turnover needs

Export Agency Finance

- Access funding with support from export credit agencies, development finance institutions and multilateral development banks with potential to mitigate credit and political risks

Inventory Finance

- Enable procurement of critical inputs through bespoke structured solutions
- Finance bulk inventory purchases for large-scale or long-duration projects

Purchase Order Finance

- Help suppliers carry additional inventory to meet increased demand



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