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Splintering supply chains



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May 2026

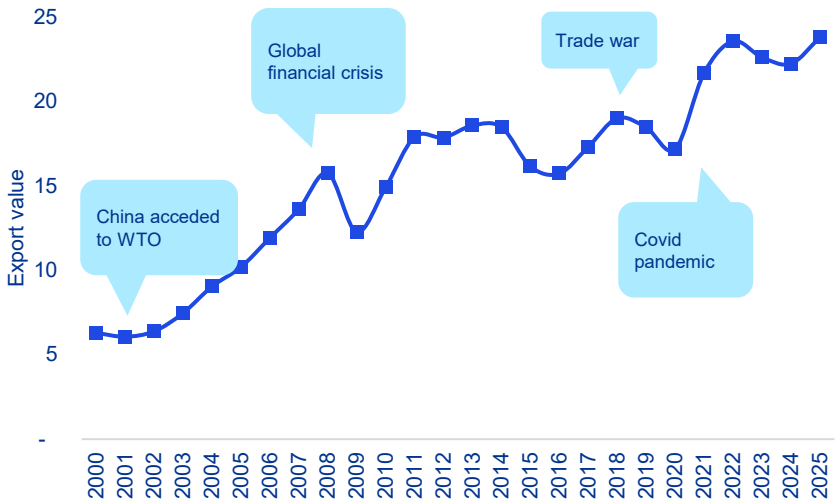
Splintering supply chains

The Washington Consensus era of ever-increasing trade liberalization is over. Persistent trade shocks, both policy-driven and otherwise, continue to reshape global supply chains. The rise of trade wars and the strategic use of tariffs — whether implemented or merely hinted at — are driving a re-intermediation of merchandise flows, creating new and complex layers of trade relationships.

In this era of constant flux, corporate resilience hinges on clarity. In this piece we leverage data to cut through the geopolitical noise and distinguish actionable signals to guide strategic direction.

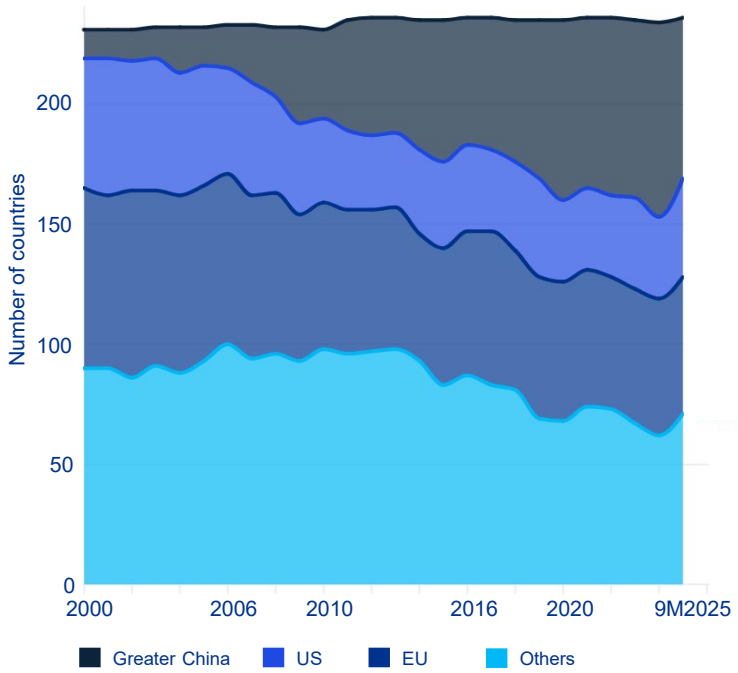
Global export value

2000-2025, USD billion



Source: UN Comtrade Database

Top trading partners by country



Source: UN Comtrade Database

Redrawing trade maps

Over the past two decades, global trade flows have changed significantly, largely driven by divergent approaches adopted by largest trade blocs.

The US has increasingly moved to retrenchment from globalization, marked by efforts to decouple supply chains, primarily in response to a substantial trade imbalance. Tariffs on steel and aluminum has evolved into managing technology flows, export restrictions on advanced semiconductors, and industrial policy aimed at reshoring, or 'friendshoring' to preferred markets, critical to manufacturing.

In tandem, China has pursued a strategy of trade diversification, significantly increasing the breadth of its trade partners. In 2000, Greater China's top 5 trading partners, by export value, accounted for 60% of its exports. By 2024, that figure had fallen to 35%, indicating a reduction in trade dependency[(a)].

Europe has adopted a balanced approach, maintaining trade relations with both powers while safeguarding strategic industries. The outcome is a nuanced policy landscape with a mix of tariffs on electric vehicles from China, reliance on gas from Russia, and a semiconductor industry that accounts for only 8% of global production.

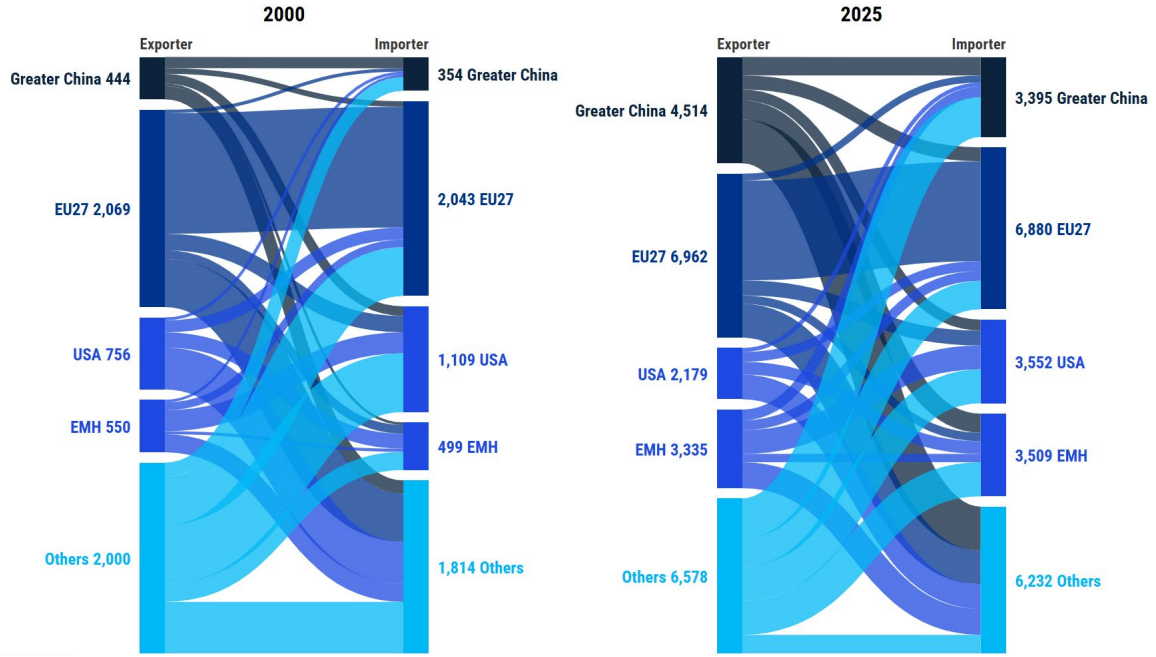
Source: (a) UN Comtrade Database

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The prevailing narrative is one of widespread decoupling and aggressive reshoring. However, the data reveals a more nuanced reality.

Total trade flows between economic blocs in 2000 and 2025

2000 and 2025, USD billion



Note: Emerging manufacturing hubs (EMH) consists of 10 countries with similar characteristics that are key beneficiaries of changing trade flow; EU27 represents 27 member countries after Brexit; Greater China includes China, Macao SAR and Hong Kong SAR

Source: UN Comtrade Database

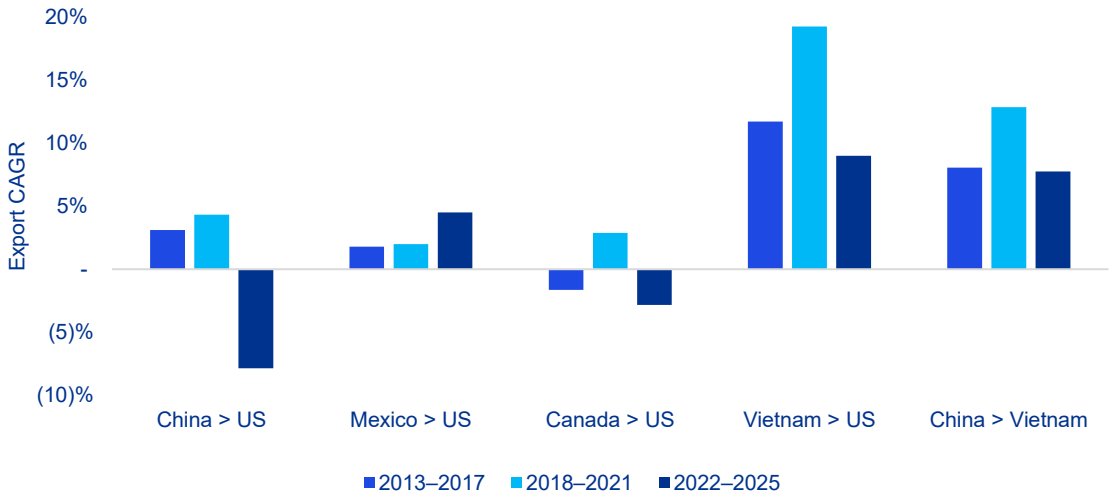
While Europe largely maintained a consistent trade balance as overall flows expanded, Greater China's export growth stood in sharp contrast to the US, where imports significantly eclipsed exports.

These divergent trade imbalances have fueled geopolitical friction and served as the primary justification for punitive tariffs. However, despite years of tariffs, the US-China trade imbalance has not improved. The deficit has shifted, not shrunk and what once came directly from Shenzhen now arrives via Hanoi, Monterrey and Jakarta.

Decoupling has now become recoupling through intermediaries.

Trade diversification via selected top corridors

2013-2025, %



Source: UN Comtrade Database

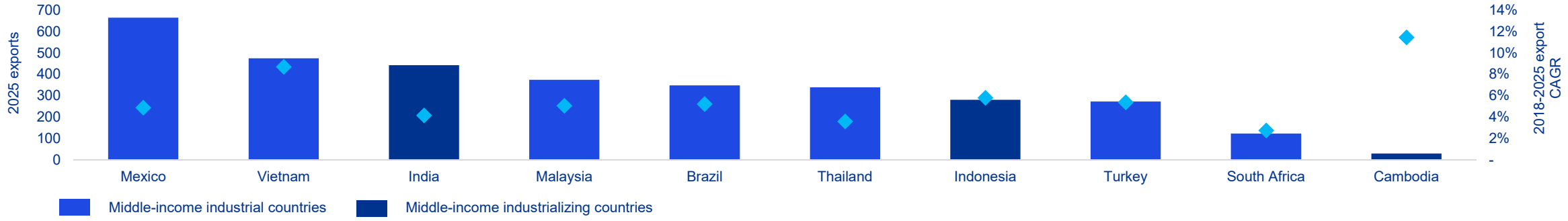
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The rise of intermediary hubs and new dependencies

A group of countries designated as ‘emerging manufacturing hubs’ have benefited from policy-driven trade frictions, such as tariffs, by creating an industrial ‘buffer zone’. However, this trade diversion has also created new dependencies on these intermediary nations, many of which have economic ties with China. Recent increases in tariffs on these countries, aimed at discouraging the diversion, are likely to slow the export growth of these emerging manufacturing hubs.

Emerging manufacturing hubs

2018-2025, USD billion (column, LHS) and % (dot, RHS)



Key features

+100 USD billion of 2024 total export, or strong export growth

Labour-intensive or mid-tech focus
Limited ownership of core technologies

Geographic advantage
Strategically located within global trade routes

Members of FTAs
Benefit from tariff advantages through FTAs

Complementary production bases
Rather than replacing China’s in global value chain

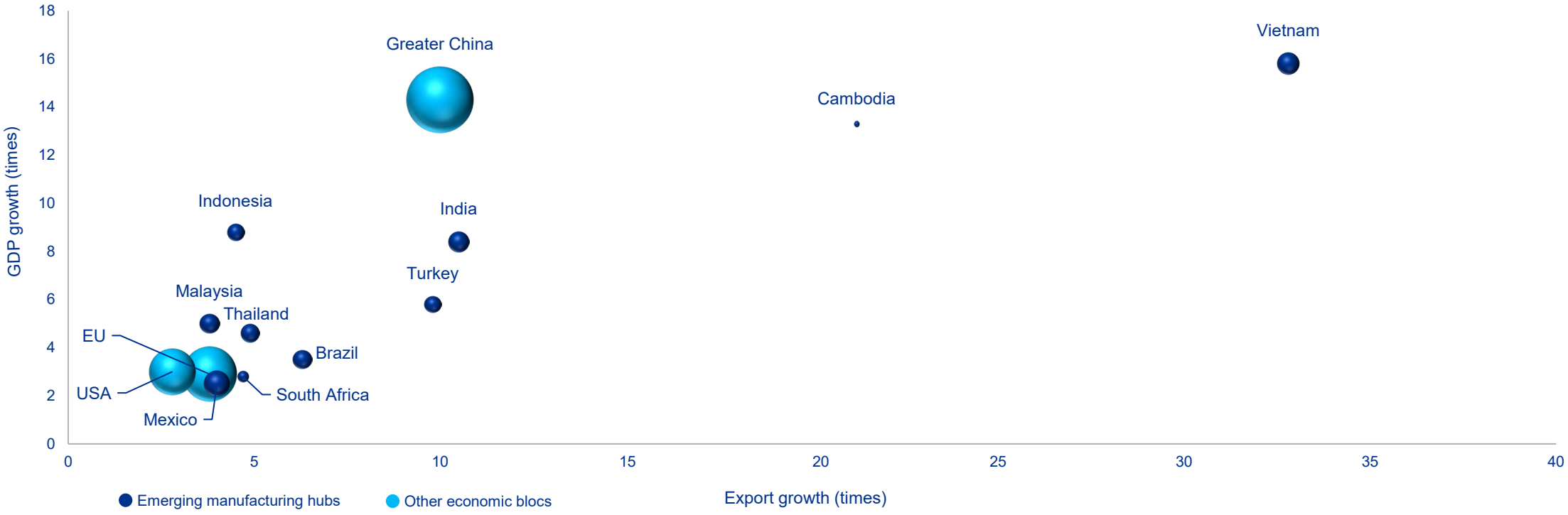
Source: UN Comtrade Database, UNIDO Country Classification

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The data shows that some emerging manufacturing hubs have been more effective in translating trade growth into sustainable economic growth. Others risk becoming mere assembly zones with minimal domestic value capture. The true beneficiaries of trade diversion are those that successfully establish themselves as efficient trade intermediaries and can progressively move up the value chain, moving beyond final assembly point. While robust domestic policies to attract trade and foster economic development are crucial, geographical advantage also plays a critical role. Proximity to key markets remains a significant determinant of success.

Growth in global export versus GDP growth

2000–2025, times growth, size of bubbles represents 2025 export value



Source: UN Comtrade Database, United Nations Industrial Development Organization, Worldometer

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Sector dynamics

Not all sectors face equal exposure to trade shocks. Shocks can be policy-driven, such as adjustments to statutory trade rules like tariffs or sanctions, or non-policy-driven, arising from events such as natural disasters, pandemics, or conflicts. The impact depends on a combination of structural factors that determine both the likelihood of disruption and the severity of consequences:

Input and market concentration

- Does the industry rely on a small number of countries or regions for key inputs?
- Is the industry highly dependent on limited set of suppliers or major buyers creating power imbalances?

Example: Taiwan produces 92% of semiconductor chips below 10nm, substitution in case of disruption is very challenging[(a)]

Supply chain complexity

- Does the industry operate through a long-multi-tier supply chain with multiple intermediaries that increase opacity and failure points?
- Does the industry depend on long-distance or strategically sensitive logistic corridor?
- Are production processes highly specialised or technically complex?

Example: A modern passenger vehicle contains 30,000+ parts from 4,000+ suppliers across 100+ countries. When a fire destroyed the US factory of a key magnesium parts supplier, many automakers faced shortages, including a domestic US OEM that had full stoppage of production at two of its plants for more than a week[(b)]

Adjustment capacity

- Can firms rapidly switch to alternative inputs or reroute the supply chain when trade disruptions occur?
- Can labour and capital assets be reallocated easily across products or markets, or are they locked into highly specialised uses?

Example: A new pharmaceutical drug manufacturing facility requires 3-5 years of regulatory approvals

Strategic sensitivity

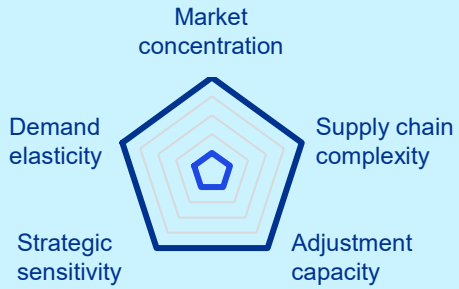
- Is the industry considered strategically sensitive (e.g., national security, energy, food, health, etc), increasing exposure to government intervention or protectionism?

Example: Export controls on critical minerals can seriously disrupt the clean energy and defence supply chains, and in recent times have been imposed with quick, and destabilizing, effect

Demand elasticity

- When trade shocks raise final product prices, does demand decline significantly?
- Can consumers absorb price increases with limited substitution?

Example: Insulin is critical for diabetics and cannot be substituted. The inelasticity of demand means pharmaceutical companies can pass through any tariff



High exposure/low flexibility
Limited responsiveness to trade shocks in the short term; supply chains remain largely fixed unless disrupted by policy-driven or structural changes. Most shifts require significant capital and time investments.

Low exposure/high flexibility
Highly exposed sectors adjust to trade shocks through rapid supply chain reallocation and trade diversion, with limited persistence of original trade routes.

Source: (a) Economy Insights, 2026; (b) CNBC

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Strategic responses

In the face of supply chain disruption, companies can employ a range of strategies. The optimal choice depends on sector structure, competitive position, and areas of highest exposure to trade shocks.

Low Exposure/High Flexibility

Exposure	Strategy	Description	Type
 Market concentration	Geographic diversification	Distribute production across multiple regions to reduce tariff and country-specific risks through trade diversion	Adaptive
	Supplier diversification	Expand supplier base to limit dependency risks and improve bargaining power during disruptions	Adaptive
 Adjustment capacity	Logistics diversification	Use multiple transport modes and routes to limit disruption from congestion and conflicts	Adaptive
	Product redesign	Redesign products to use alternative inputs and reduce lock-in to vulnerable suppliers	Adaptive
 Supply chain complexity	Product portfolio rationalization	Simplify product lines to reduce interdependencies and enable faster reconfiguration during shocks.	Adaptive

Example sectors with low exposure/high flexibility to trade shocks, which are best served by an **adaptive focus** to change to **avoid disruption:**

Textile and apparel



*For rating rationale on each dimension, **click here***

Medium Exposure/Medium Flexibility

Exposure	Strategy	Description	Type
 Market concentration	Inventory buffering	Build strategic safety stock to smooth production flows during short-term disruptions	Defensive
 Adjustment capacity	Strengthen liquidity buffers	Strengthen cash reserves to provide financial flexibility for absorbing costs and withstanding disruptions	Defensive
 Demand elasticity	Service & ecosystem buffering	Bundles products with services to reduce price sensitivity and improve resilience to cost shocks	Defensive
 Supply chain complexity	Regionalization and nearshoring	Shift supply chains closer to end markets to reduce cross-border tariffs and logistic risks	Adaptive

Example sectors with medium exposure/medium flexibility to trade shocks, which are best served by a **balanced approach to combine resilience with selective adaptation:**

Electronics



Automotive



*For rating rationale on each dimension, **click here***

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Strategic responses

High Exposure/Low Flexibility

Exposure	Strategy	Description	Type
 Strategic sensitivity	Strategic stockpiling	Maintain reserves of critical materials to ensure supply continuity when trade flows are restricted	Defensive
	Government partnership	Engage with governments/regulators to gain policy visibility and get exemptions/support during disruptions	Defensive
 Demand elasticity	Cost pass-through mechanisms	Use contractual pricing clauses to transfer trade-shock costs along the value chain and stabilize margins	Defensive
	Product tiering & segmentation	Offer multiple price tiers to preserve volumes by shifting demand across segments during price shocks	Defensive
 Supply chain complexity	Vertical integration	Bring critical production stages in-house to improve input control and reduce supplier reliance	Adaptive

Example sectors with high exposure/low flexibility to trade shocks, which are best served by a defensive focus to build resilience to withstand disruption:

Critical minerals



Pharmaceutical



For rating rationale on each dimension, ***click here***

The efficiency-resilience trade-off

Every strategy to increase resilience carries a cost. Geographic diversification means sacrificing scale economies. Inventory buffering ties up working capital. Vertical integration adds management complexity. The question is not whether to pay for resilience, but how much, and where is that investment best deployed.

These strategic choices fundamentally reshape how companies allocate capital and structure their operations. The financial impact of resilience investments can be analyzed through their effect on firms' balance sheets and operational efficiency metrics.

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Financial architecture of trade shock resilience

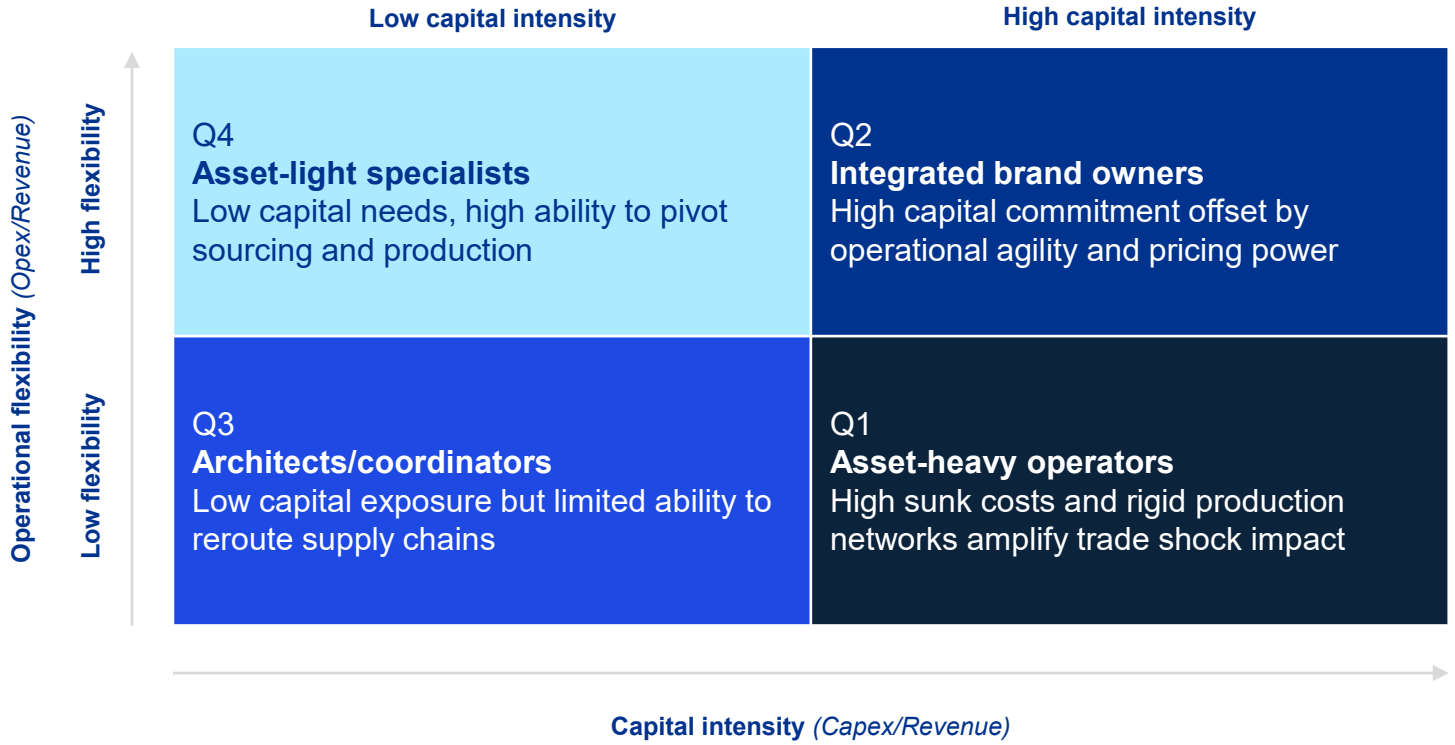
Anticipations of, or reactions to, trade shocks reshape firms' capital and operating models. These decisions can be captured through a Capital Intensity (CI) — Operational Flexibility (OF) matrix, which maps capital and operating expenditure over revenue across time.

Capital intensity vs operational flexibility matrix

Capital intensity: assesses long-term strategy, reinvestments and economies of scale. But high ratios may also pose strategic risks if large-scale investments get impacted by turbulent market periods

Operational flexibility: measures day-to-day cost efficiency and the ability to adjust capacity and costs quickly when demand, supply, or regulations shift

Finding the right balance between capital intensity and operational flexibility is crucial for developing a corporate ‘winning formula,’ which reflects each company’s unique DNA and its sector’s vulnerability to trade shocks.

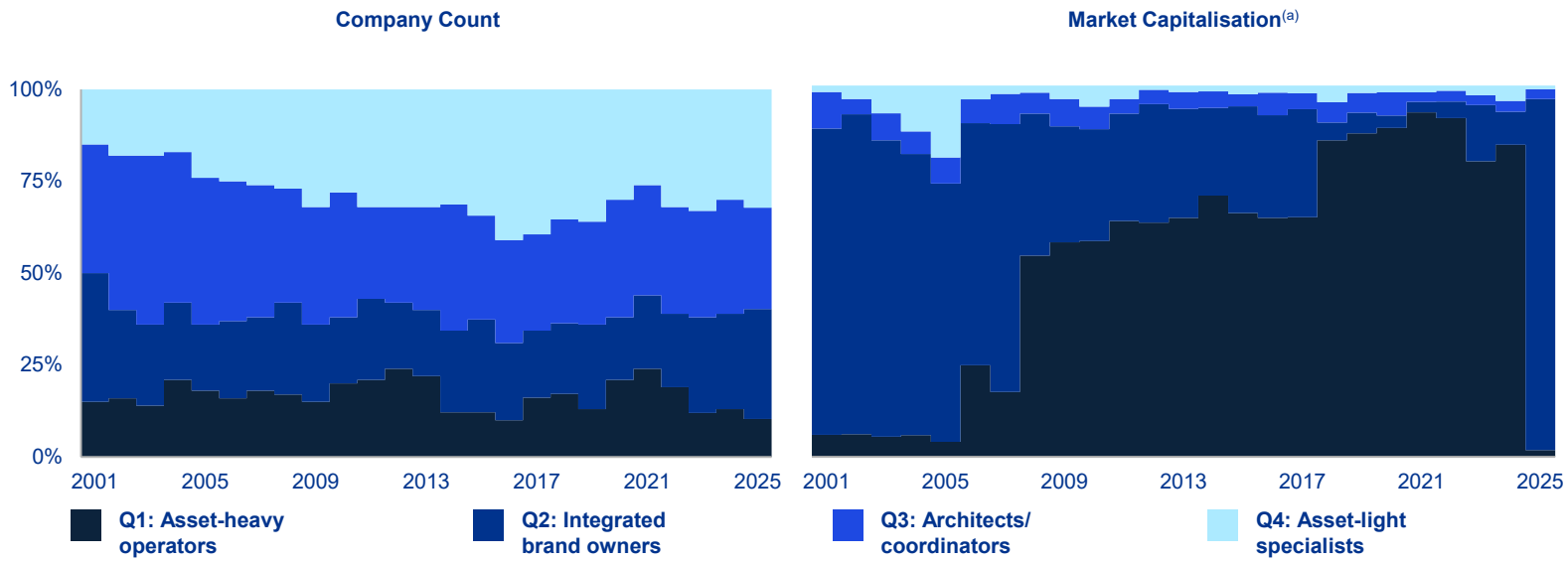


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Capital-intensive sectors, such as electronics, face constraints that limit rapid operational pivoting, driving them toward asset-heavy resilience CapEx models including regionalization and nearshoring, and vertical integration:

Contribution of top 100 electronics companies by CAPEX versus OPEX

2001–2025, Quadrants are pegged to 2001 CI and OF median levels. Firm quantity is fixed at top 100 by revenue per year



Intangible assets account for 92% of S&P 500 market cap
(Ocean Tomo, 2025)

- Despite stable company counts across quadrants, market capitalisation has concentrated in *Q1 — Asset-heavy operators* after major shocks. This shift is driven by firms combining high intangible investment with strategic CapEx when capital was cheap and by investors' preference for tech-heavy operators.
- An increase in market capitalization concentration during Q1, without a corresponding rise in the number of companies, resulted in a sustained effect. This shift towards asset-selective models demonstrates that market dominance is increasingly defined by control over intellectual property, reinforced by ownership of critical physical assets.

*Read the **Dell and Lenovo case study here** to explore how legacy electronics manufacturers navigate geopolitical and logistical challenges*

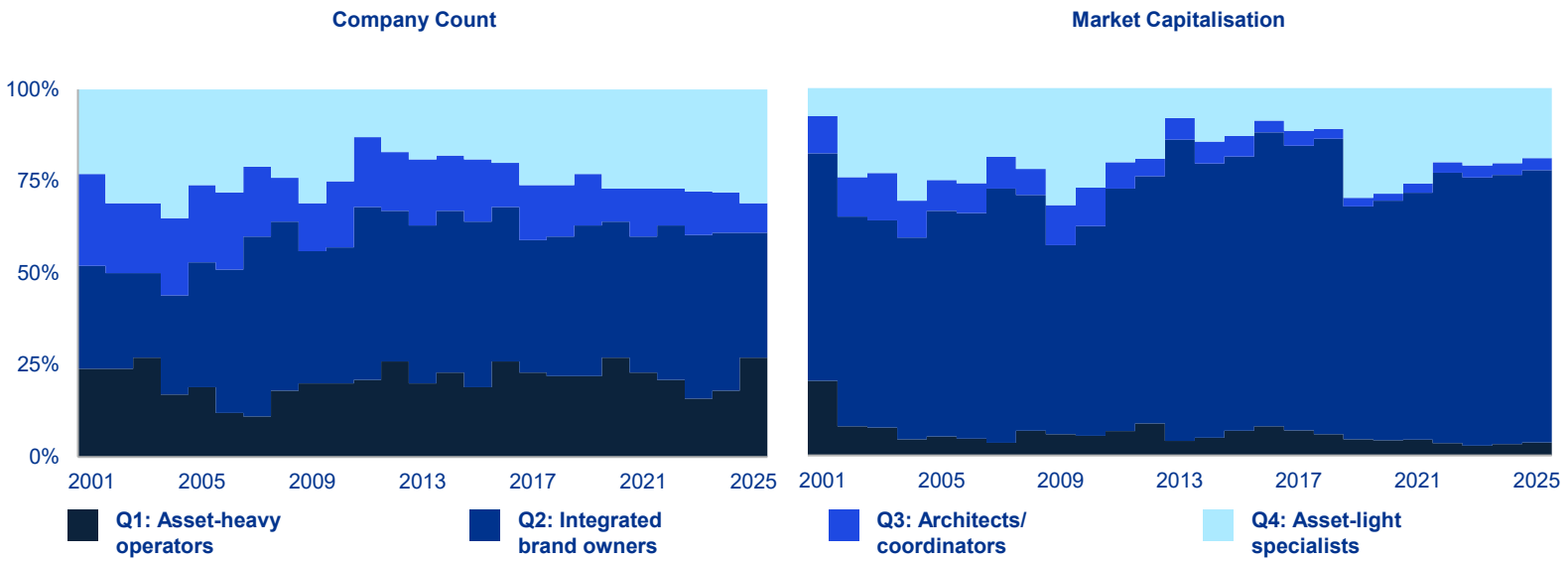
Notes: (a) The significant change in market cap from quadrant 1 to quadrant 2 in 2025 was attributable to the move of one company (Apple) from one quadrant to another.
Source: S&P Global Market Intelligence

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Operationally-flexible sectors, such as textile and apparel, possess inherent flexibility that enables rapid reconfiguration. But trade shocks can prompt increases in 'resilience' OpEx costs including risk teams, digital monitoring, dual sourcing fees, supplier audits and enhanced compliance capabilities:

Contribution of top 100 textile and apparel companies by CAPEX versus OPEX

2001–2025, Quadrants are pegged to 2001 CI and OF median levels. Firm quantity is fixed at top 100 by revenue per year



- Companies in Q2 — Integrated brand owners have high supply chain control and are able to leverage Direct-To-Customer "DTC" networks to swiftly respond to demand data through their vertically integrated network. Brand power also plays a role in margin compression.
- Market cap concentration in Q2 confirms that the market rewards integrated brand owners with full control of their entire value chain.

In response to trade shocks, inflexible sectors compensate through strategic asset ownership, while flexible sectors build capabilities. Markets reward both approaches.

Source: S&P Global Market Intelligence

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Navigating the great recoupling

The trade shocks of the past decade were just the beginning. To navigate the landscape ahead, companies must:

Forensically map their supply chains:

Identify geographic concentrations, pinpoint single points of failure and quantify exposure to specific choke points and employ adaptive strategies



Accept the trade-off:

Whether achieved through capital investments to own and control critical assets or funding higher operational costs required for greater agility, resilience comes at the cost of efficiency

Make early decisions:

Defensive strategies like diversification and inventory buffering are cheaper and faster when competitors aren't scrambling for the same limited capacity

Stay true to their core:

Dell built supply chain resilience through regional manufacturing diversification, while Lenovo pursued scale through density. Both succeeded because they reinforced, rather than abandoned, their competitive identity.

Complete decoupling is neither possible nor desirable. Supply chains exist because they create value. The goal is not to eliminate interdependence but to make it strategic, accepting some risks while eliminating others. The winners will be those who make hard choices now rather than when the next crisis hits.

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Appendix

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Case study | Dell vs Lenovo

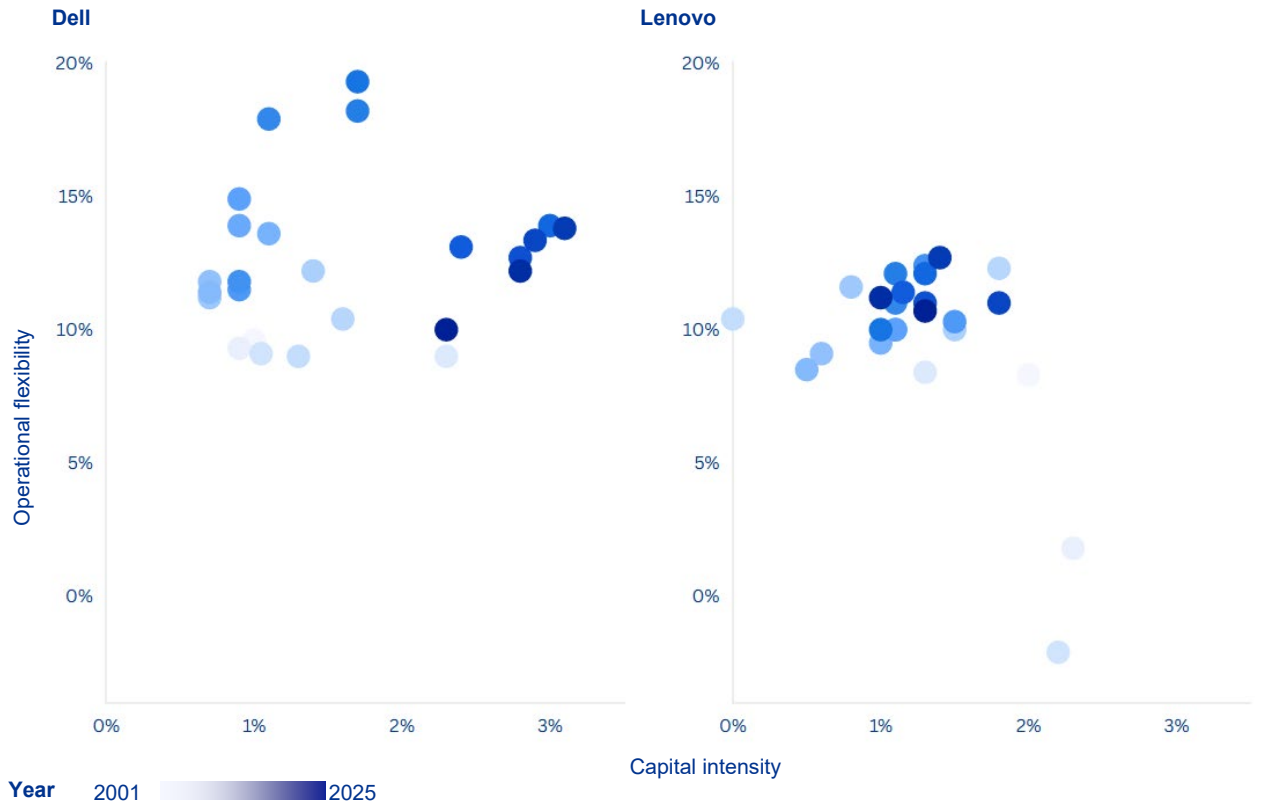
While firms with high intangible assets have soared in value, legacy electronics manufacturers must navigate a complicated set of geopolitical and logistical challenges.

Capital intensity x operational flexibility matrix

2001–2025, each bubble represents a year[a]

- Dell's post-2019 shift toward higher CI signals a strategic pivot to AI infrastructure and supply chain resilience in response to trade shocks
- Lenovo's tight clustering reflects a scale-driven, China-centric supply chain, trading stability at the cost of location risk

Takeaways: A fine balance between supply chain density and risk mitigation must be struck. Dell has traded cost-efficiency for geopolitical resilience, while Lenovo's cost-led China-dense supply chain gives it greater market share but more exposure to trade shocks



Source: (a) S&P Global Market Intelligence and KPMG Analysis

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Manufacturing plant diversification: Risk vs Reward

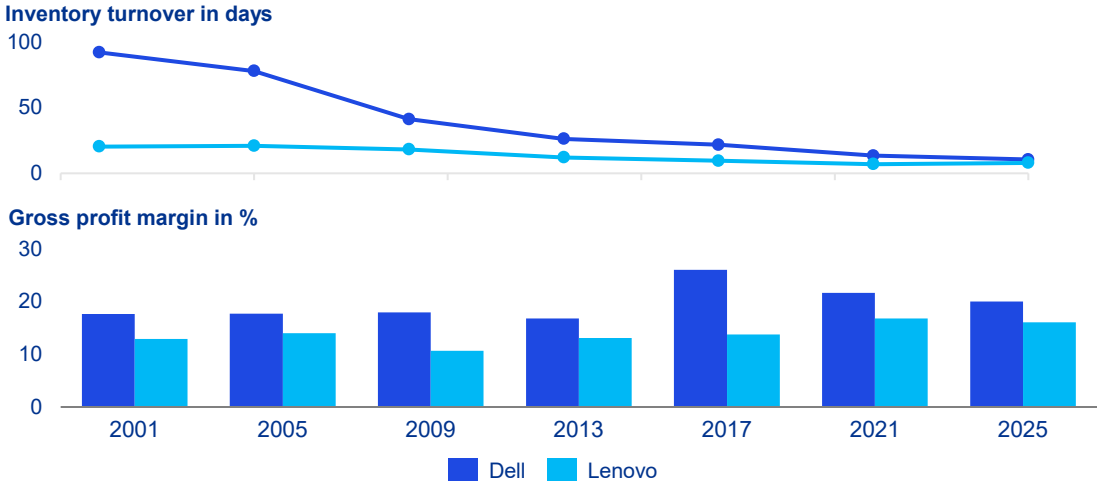
- Amid trade shocks, Dell's reliance on Chinese assembly became a bottleneck. In response, it pivoted to a "China +1" strategy, diversifying to other countries
- On the other hand, Lenovo enjoys lower unit-costs via supply chain density in China, but with added geopolitical risks

Dell traded working capital efficiency for regional stability, while Lenovo prioritised cost dominance through a concentrated, vertically integrated footprint.

While Lenovo prioritises market share through lower margins and aggressive pricing, Dell's higher gross margins show the success of its shift towards the premium enterprise segment, providing a profit cushion that Lenovo lacks against rising costs

Profit margins and inventory turnover showing strategic shifts[(a)]

2001–2025



Contracts and supply chain management

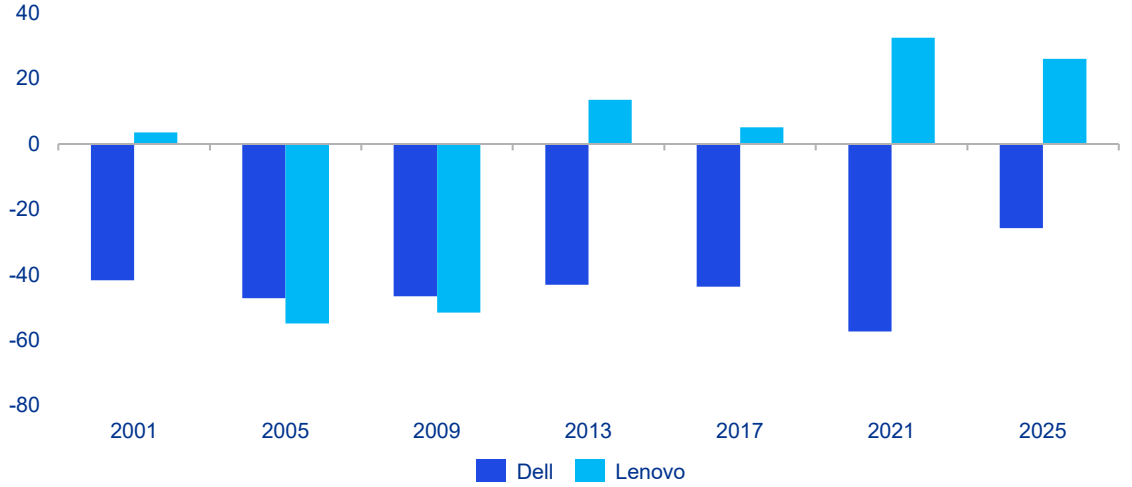
- Dell uses a "Build-to-order" model and just-in-time (JIT) flow to minimise DIO, while leveraging large enterprise contracts to delay supplier payments
- Lenovo's owned manufacturing plants and volume-focused approach targeting mass retail requires higher levels of inventory stockpile

Dell's negative CCC benefits it during stable market conditions, but under trade shocks it lacks product availability due to logistical bottlenecks. Lenovo's necessary stockpile enables it to weather trade shocks better but puts it at risk of inventory devaluation.

Dell's CCC is driven almost entirely by DPO, reflecting contract power and tight coordination; Lenovo's is driven by DIO, using inventory as a low-cost buffer enabled by China-dense manufacturing

Cash conversion cycle[(a)]

2001–2025, days



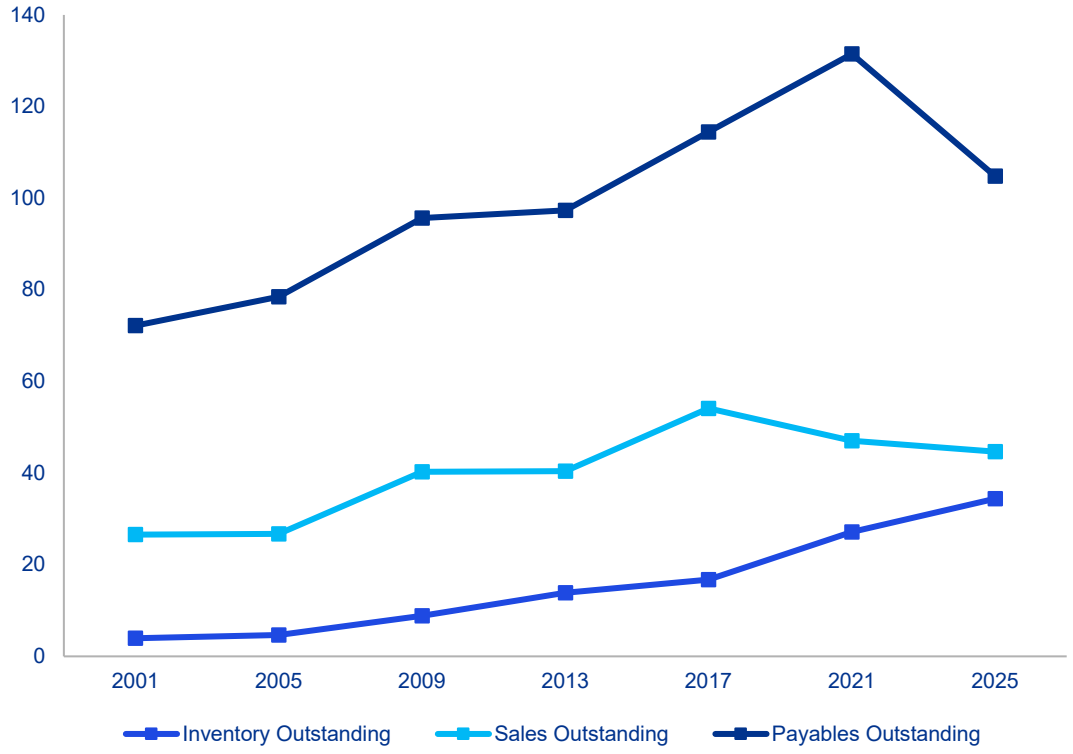
Click here to navigate to Financial architecture of trade shock resilience

Inventory Exceptions: Although Dell is indeed maintaining a "Build-to-order" model for final assembly, it now employs a "supply-first" approach for select components central to the AI infrastructure boom, hedging against rising costs.

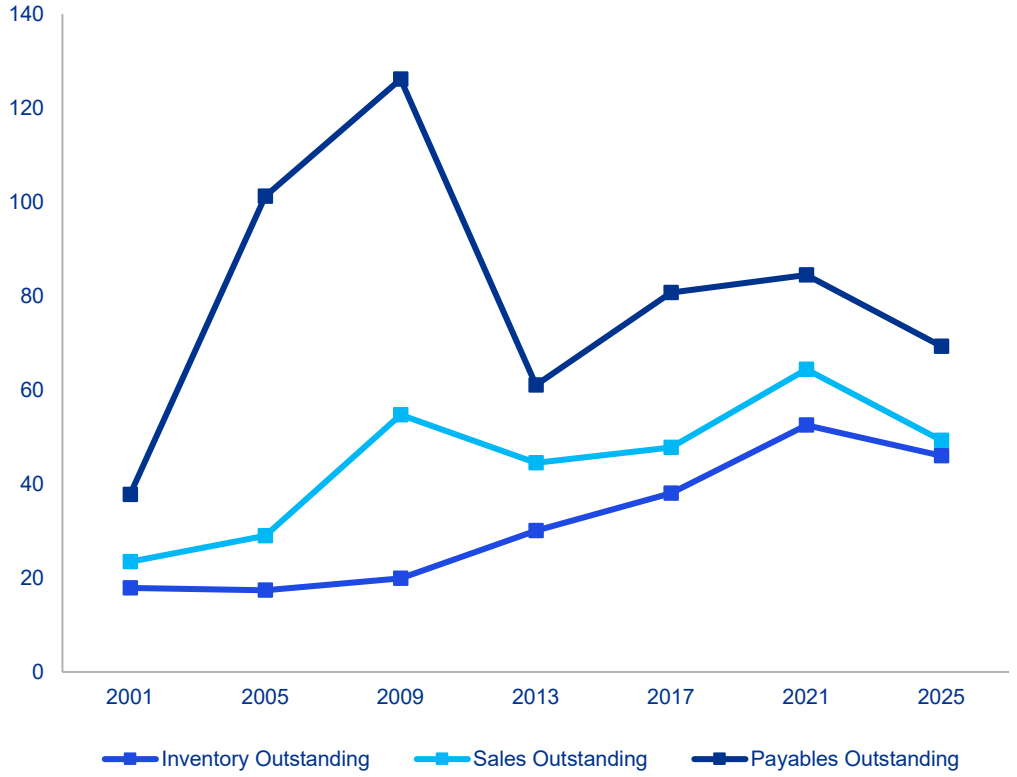
Source: (a) S&P Global Market Intelligence and KPMG Analysis

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Dell



Lenovo



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Rating rationale for each dimension (1/2)

	Textile		Pharma		CM		Electronics		Auto	
Dimension	**Rating**	**Rationale**	**Rating**	**Rationale**	**Rating**	**Rationale**	**Rating**	**Rationale**	**Rating**	**Rationale**
1. Input and market concentration	**2**	Production is concentrated in Asia (e.g.: China, Vietnam, Bangladesh), but no single country is irreplaceable; many suppliers exist.[a]	**4**	APIs are heavily concentrated in China and India; some drugs rely on a very small number of qualified suppliers.[b]	**5**	Mining and refining are geographically concentrated (e.g. rare earths in China, cobalt in DRC); limited number of suppliers, geological scarcity.[c]	**3**	Extreme concentration in key nodes (e.g. advanced foundries, EUV equipment); few global players. Technological/capability-based scarcity	**3**	Dependent on critical inputs like semiconductors and rare earths; while the industry remains somewhat dependent on specific sources, those are not irreplaceable.
2. Supply chain complexity	**2**	Multi-stage chain (yarn–fabric–garment) but processes are standardised and low-tech; logistics mainly container-based.	**4**	Multi-step process with strict quality and regulatory requirements; approvals create major bottlenecks.	**4**	Long chain from mining to refining to processing; refining is the main bottleneck and highly regulated.	**4**	Highly fragmented, multi-tier chain with thousands of process steps; strong dependence on specific technologies and locations.	**4**	The supply chain is complex, involving multiple tiers, specialised suppliers and advanced technology are required.
3. Adjustment capacity	**2**	Easy to shift sourcing across countries because factories and workers can be redeployed quickly with limited capital costs; however, specialised production lines may require more effort and investment.	**4**	Switching suppliers or locations requires regulatory re-approval and validation; takes years, not months.	**5**	New mines or refineries take many years to develop; substitutes are limited or technically inferior.	**3**	Supply shift requires time and capital — constrained by lengthy qualification, testing, validation — feasible and depending on existing supply network.	**4**	Challenging due to the high specialisation in the industry; workers and capital invested in production lines are difficult to redeploy to other sectors.

Source: (a) TUE Garment, n.d.; (b) Eglovitch, J. S., 2024; (c) Rare Earth Exchange, 2025; Yu, A., & Camposano, J. 2025

***Click here* to navigate to Sector dynamics**

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Rating rationale for each dimension (2/2)

	Textile		Pharma		CM		Electronics		Auto	
Dimension	**Rating**	**Rationale**	**Rating**	**Rationale**	**Rating**	**Rationale**	**Rating**	**Rationale**	**Rating**	**Rationale**
4. Strategic sensitivity	**1**	Not critical to defence, health, or core technology; policy focus mainly on jobs and trade balances.	**5**	Directly linked to public health and national health security; governments intervene during crises.	**5**	Essential for energy transition, EVs, defence, and advanced manufacturing; strong government involvement.	**4**	Core to defence, AI, digital infrastructure, and great-power competition; heavy state subsidies and controls.	**4**	Contributing significantly to job creation and technological development; many countries view it as a key part of their economic and national security strategies.
5. Demand elasticity	**2**	Discretionary spending allows buyers to switch brands for lower prices or reduce purchases. However, technical or high-end textile products have less price elasticity due to their specialised nature.	**5**	Many drugs are essential, or life-saving. Demand is largely insensitive to price changes, and often protected by insurance or government policy.	**3**	Few short-run substitutes, demand largely driven by downstream industrial demand, price increase are often absorbed downstream.	**3**	Final demand is largely tied to non-essential end-market such as consumer electronics or cyclical IT investment. Price increases can lead to delayed product launches, less new purchases, technology shift.	**3**	Demand for cars is somewhat insensitive to price changes, especially for basic models. However, significant price increases can impact sales, particularly for premium or new types of vehicles like electric cars.

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