

Geopolitical Tensions and Global Supply Chain Disruptions: An Analysis of the Red Sea Crisis and the US–China Trade War

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Abstract: The post-Cold War consensus that geopolitics would remain peripheral to economic integration has collapsed. Two simultaneous crises — the Houthi-driven Red Sea shipping disruption that began in November 2023 and the escalating US–China tariff war, which reached an extraordinary 145 percent on Chinese imports by April 2025 — have delivered a profound shock to the architecture of global supply chains. This paper draws on trade data, logistics indices, central bank research, and policy reports to examine how these twin pressures are reshaping the movement of goods, the cost of doing business, and the strategic orientation of multinational firms. We trace the mechanisms through which maritime insecurity — and trade-policy uncertainty interact, the sectoral vulnerabilities they expose, and the adaptive responses — nearshoring, friendshoring, supply-chain digitisation — they are accelerating. We

argue that globalisation is not reversing but being rewired: firms are replacing single-country dependence with multi-node regional networks, accepting efficiency losses in exchange for resilience. The paper closes with policy recommendations and a research agenda for the era of geopolitical supply-chain risk.

Keywords: Red Sea crisis, US–China trade war, global supply chains, geopolitical risk, friendshoring, nearshoring, supply chain resilience, maritime disruption

1. INTRODUCTION

For roughly three decades after the end of the Cold War, the managers of global supply chains operated under a reassuring assumption: that economics would trump politics. Distance could be

conquered by container ships, comparative advantage would determine sourcing decisions, and the smoothly interlocking gears of just-in-time logistics would keep factory floors humming from Shenzhen to Stuttgart. That assumption, already shaken by the COVID-19 pandemic, has now been shattered.

Two crises, unfolding simultaneously but through entirely different mechanisms, have converged to rewrite the rules of global trade. The first is maritime in nature. Since November 2023, Yemen-based Houthi rebels — emboldened by the Gaza conflict — have launched more than 190 attacks on commercial vessels transiting the Red Sea and Gulf of Aden (House of Commons Library, 2025). The strikes have rendered the Suez Canal — through which roughly 30 percent of global container trade ordinarily flows — functionally off-limits for many carriers, forcing a costly detour around Africa's Cape of Good Hope that adds thousands of miles and up to two weeks to each voyage (J.P. Morgan, 2024). The economic reverberations have been felt in automotive plants in Germany, electronics assembly lines in Southeast Asia, and grocery shelves across Europe.

The second crisis is structural and political. The trade relationship between the United States and China, the world's two largest economies — together accounting for over 42 percent of global GDP in 2023 (Persistence Market Research, 2025) — has deteriorated from managed rivalry to something approaching a controlled economic divorce. Tariffs that began at single-digit levels in 2018 have been ratcheted, in successive escalations under two American administrations, to an extraordinary 145 percent on Chinese imports as of April 2025 (IBISWorld, 2025). China has retaliated in kind, restricted rare-earth exports, and added American firms to its Unreliable Entity List. The Centre for Economic Policy Research (CEPR) estimates that, even accounting for partial suspensions, these measures could reduce direct

US–China trade by as much as 90 percent and impose a net global welfare loss of 1.2 percent (CEPR, 2025a).

Taken together, these twin pressures constitute the most severe geopolitical challenge to global supply chains since the formation of the World Trade Organisation. This paper examines both crises in depth, traces their interaction effects, and analyses the strategic responses they are compelling from firms, governments, and international institutions. Section 2 provides a literature review and theoretical framework. Sections 3 and 4 analyse the Red Sea crisis and the US–China trade war respectively. Section 5 examines their intersection. Section 6 surveys adaptive corporate and policy responses. Section 7 offers policy recommendations, and Section 8 concludes.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Geopolitical Risk and Trade

The relationship between political instability and trade disruption has a long scholarly lineage, but its treatment within supply-chain management was historically peripheral. The dominant paradigm of the 1990s and 2000s — lean manufacturing, just-in-time inventory, and geographically extended value chains — prioritised cost minimisation and treated systemic disruptions as tail risks rather than structural features of the operating environment (Christopher & Peck, 2004). The post-pandemic literature has fundamentally revised this view.

Caldara and Iacoviello (2022) develop a widely cited Geopolitical Risk (GPR) Index, constructed from newspaper coverage of tensions, conflicts, and military buildups, which demonstrates measurable macroeconomic and financial effects of geopolitical shocks. Their findings establish that geopolitical risk depresses investment, reduces

trade flows, and raises uncertainty premia. Gopinath et al. (2025), writing for the IMF, document what they term 'geoeconomic fragmentation' — a process by which trade and investment are increasingly shaped by political alignment rather than pure economic fundamentals, leading to measurable efficiency losses and the formation of trading blocs.

At the firm level, Freund et al. (2022) demonstrate that major shocks — whether natural disasters, pandemics, or geopolitical events — can trigger substantial supply-chain reorganisation, encouraging firms to diversify sourcing networks as a form of real-options investment in future resilience (CEPR, 2025b). The emerging literature on 'geopolitical supply chain risk' synthesises these strands, framing corporate sourcing decisions as embedded in a political-economic context that can shift rapidly and with little warning.

2.2 Supply Chain Resilience Theory

Supply chain resilience is typically defined as the adaptive capacity to prepare for unexpected events, respond to disruptions, and recover to a stable state, possibly better than the pre-disruption state (Ponomarev & Holcomb, 2009). The theoretical tension in the field lies between efficiency and redundancy. Lean supply chains are efficient under normal conditions but brittle under stress; resilient supply chains bear redundancy costs in normal times that pay off during crises.

The geopolitical literature adds a third dimension: alignment. Firms operating in a world of strategic competition must now assess not only whether a supplier is cost-competitive and geographically accessible, but whether that supplier's national government is a reliable counterparty. This has given rise to the concepts of nearshoring, reshoring, and — most recently — friendshoring: the practice of concentrating supply relationships

in countries that share political values and strategic interests (OECD, 2025; IJFMR, 2026).

Research from Japanese multinationals — global leaders in supply-chain management — confirms that globalisation is not reversing but being rewired. Evidence shows firms are transitioning away from single-country dependence toward multi-node regional networks that balance efficiency with strategic optionality (CEPR, 2025b). The question is no longer whether to diversify but how quickly and at what cost.

3. THE RED SEA CRISIS: MARITIME DISRUPTION AND ITS CASCADING EFFECTS

3.1 Origins and Scope of the Crisis

The crisis has its proximate trigger in the Gaza conflict that erupted in October 2023, but its roots run deeper. The Houthi movement — which seized Yemen's capital Sana'a in 2014 — has repeatedly demonstrated both the will and the capability to project force into international shipping lanes. Beginning in November 2023, the group began targeting commercial vessels claiming ties to the United States, the United Kingdom, or Israel. By October 2024, they had executed more than 190 attacks, damaging over 30 ships and sinking at least two (House of Commons Library, 2025). Crucially, Chinese and Russian vessels were generally permitted to pass unharmed, introducing an explicitly geopolitical logic into what had historically been a commercial waterway (Reed Smith, 2024).

The Red Sea and Suez Canal corridor ordinarily handles approximately 12 to 15 percent of world commerce and 30 percent of global container throughput (New Zealand Embassy Cairo, 2021; J.P. Morgan, 2024). The Bab el-Mandab Strait, the 18-mile chokepoint connecting the Red Sea to the Gulf of Aden, is the maritime equivalent of a highway interchange: disruption there backs up traffic

across entire hemispheres. Very Large Container Ships and Ultra-Large Container Ships — which carry the most goods and generate the most revenue — were disproportionately targeted. Traffic of these vessels through the strait fell from 53 and 24 ships per week respectively in late 2023, to 2 and 0 by early 2024 (Reed Smith, 2024). Container traffic through the canal as a whole declined by 72 percent year-on-year by November 2024 (project44, 2024).

3.2 Economic and Logistical Consequences

The most immediate consequence was the sharp rerouting of shipping traffic around Africa's Cape of Good Hope — a detour that adds approximately 4,000 miles and 10 to 15 extra sailing days to each voyage (J.P. Morgan, 2024). The cost implications were severe and almost immediate. The Platts Container Index surged to USD 5,272.50 per forty-foot equivalent unit (FEU) in January 2024, its highest level since mid-2022 (Supply Chain Magazine, 2025). For specific trade lanes, the increases were even sharper: routes from Asia to Europe saw freight rates spike nearly fivefold at peak disruption. Insurance premiums — reflecting war-risk surcharges — added further to vessel operating costs.

Transit-time inflation was equally significant. Southeast Asia to the US East Coast saw a 47 percent increase in transit times; routes to Europe saw a 33 percent increase; and China to Europe experienced a 25 percent increase in voyage duration (project44, 2024). These delays cascaded into industries built around just-in-time logistics. European automotive manufacturers — dependent on components shipped from Asia — faced production halts as inventory buffers ran dry. The Global Supply Chain Stress Index surged to 2.3 million TEUs in December 2024, reflecting the scale of accumulated congestion and displacement (Acuity Knowledge Partners, 2025).

J.P. Morgan Research estimated that the disruption added 0.7 percentage points to global core goods inflation and 0.3 percentage points to overall core inflation during the first half of 2024 (J.P. Morgan, 2024). UNCTAD flagged not only the direct economic costs but also the secondary environmental costs: rerouting vessels through longer sea lanes significantly increased greenhouse gas emissions, complicating the maritime industry's decarbonisation commitments (UNCTAD, 2024).

3.3 Sector-Level Impacts

The effects were not distributed evenly across sectors. Three industries bore a disproportionate share of the disruption.

Automotive manufacturing, which pioneered the just-in-time philosophy, was among the hardest hit. Major German and Scandinavian automakers reported production pauses as component shipments from Asian suppliers failed to arrive on schedule. The industry's reliance on single-source suppliers for specialised parts — a rational cost-minimisation strategy under normal conditions — became a structural vulnerability under crisis conditions.

The energy sector faced distinct risks. While the rerouting of crude oil and liquefied natural gas tankers was feasible, it raised costs and extended delivery timelines for European buyers already contending with elevated energy prices following the Russia–Ukraine conflict. Suez Canal revenues — a critical source of foreign exchange for Egypt — fell sharply, with direct knock-on effects for a country already under significant fiscal pressure.

Food and agricultural commodities — including grain shipments from Black Sea and South Asian producers to Middle Eastern and East African markets — also experienced significant disruption. For developing nations already facing food insecurity, these delays carried acute humanitarian dimensions that extended well beyond commercial

inconvenience.

3.4 Responses: Military, Commercial, and Institutional

The international response was swift but its effectiveness limited. The United States launched Operation Prosperity Guardian in late 2023, assembling a multinational naval coalition to escort commercial vessels through the threat zone. The European Union stood up Operation Aspides — mandated to run until at least February 2026 — to provide defensive protection for European-flagged shipping (Atlas Institute, 2025). Military strikes were conducted against Houthi launch sites. Despite these efforts, major carriers continued to avoid the region throughout 2024 and into 2025; the threat environment remained too uncertain for commercial operators to absorb war-risk insurance costs when a viable if expensive alternative existed. The commercial response coalesced around rerouting, rescheduling, and inventory buffering. Many firms began stockpiling critical components in regional warehouses — a reversal of the lean-inventory philosophy — and diversifying carrier relationships to ensure access to multiple routing options. Some European buyers accelerated efforts to near-source components from suppliers in Eastern Europe and North Africa, reducing their dependency on the Asia–Europe trade corridor.

4. THE US–CHINA TRADE WAR: STRUCTURAL DECOUPLING AND ITS GLOBAL FALLOUT

4.1 Historical Trajectory and 2025 Escalation

The US–China trade confrontation did not begin in 2025. Its roots lie in the Section 301 investigations of 2018, when the first Trump administration imposed tariffs on Chinese goods, citing intellectual property theft and trade imbalances. By late 2019, average US tariffs on Chinese imports had been

raised by approximately 20 percentage points (CEPR, 2025a). The Biden administration, despite expectations of de-escalation, largely maintained these tariffs while adding targeted restrictions in semiconductors and advanced technology. The stage was thus set for the dramatic escalation of the second Trump administration.

In April 2025 — labelled 'Liberation Day' by the administration — the United States announced sweeping reciprocal tariffs affecting most trading partners, with Chinese goods facing an extraordinary cumulative rate of 145 percent (IBISWorld, 2025; CEPR, 2025a). China retaliated with tariff rates of its own — described by one analyst as an 84 percent counter-salvo — and supplemented tariff measures with export controls on rare-earth elements and the placement of additional American firms on its Unreliable Entity List (Asia Decoded, 2025). The bilateral relationship had, in the words of one analyst, moved from a trade dispute to a 'systemic economic divorce' (IBISWorld, 2025).

4.2 Macroeconomic Modelling of the Damage

The economic modelling literature is broadly consistent in its negative assessment. CEPR's simulation work finds that, even under the most optimistic scenario — where grace periods become permanent suspensions — the new tariff regime delivers a net global welfare loss of 1.2 percent, a steeper 2.0 percent loss for the United States, and a reduction in overall trade of 5 percent globally and up to 90 percent in direct US–China bilateral flows (CEPR, 2025a). These are headline numbers that mask considerable distributional complexity: some sectors and countries benefit from trade diversion, while others face catastrophic demand collapses.

Harvard Business School research by Alfaro and Chor, published in 2026, documents the 'great reallocation' already underway: US imports from

China have fallen to near-2001 levels — before China joined the WTO — reflecting both tariff effects and prior restructuring decisions by firms that anticipated escalation (HBS, 2026). Importantly, this represents selective decoupling rather than the collapse of globalisation: through the first half of 2025, Asia still accounted for roughly half of all US imports (CNBC, 2025). The agricultural dimension deserves specific attention. China imported USD 36 billion worth of American agricultural goods in 2023, making it America's third-largest agricultural trading partner. Retaliatory measures targeting soybeans, pork, and cotton — commodities concentrated in politically sensitive rural states — carry both economic and electoral implications. Modelling suggests that a sustained agricultural trade war could put over 900,000 American jobs at risk (Persistence Market Research, 2025).

4.3 Technology and Strategic Industries

Beyond the tariff dimension, the US–China confrontation has an increasingly explicit technology-security character. American export controls on advanced semiconductors and chip-manufacturing equipment — the so-called 'chip war' — represent an attempt to retard Chinese progress in artificial intelligence, quantum computing, and advanced military systems. China has responded by dramatically accelerating domestic semiconductor investment and by wielding its near-monopoly on critical minerals as a countervailing pressure point.

The implications for global supply chains in technology-intensive industries — semiconductors, electric vehicles, renewable energy equipment, pharmaceuticals — are structural and long-lasting. Firms operating in these sectors face a choice: maintain integrated global supply chains and risk regulatory exposure, or bifurcate operations between US-aligned and China-aligned value

chains. Many multinationals are in the process of making precisely this choice, with enormous capital allocation implications (IBISWorld, 2025; Lazard, 2024).

Table 1. Comparative Impact: Red Sea Crisis vs. US–China Trade War

Dimension	Red Sea Crisis (2023–2025)	US–China Trade War (2018–2025)
Primary Mechanism	Maritime route disruption via Houthi attacks	Tariffs, export controls, sanctions
Trade Volume Impact	72% decline in Suez Canal traffic (Nov 2024)	Up to 90% reduction in direct bilateral flows (CEPR model)
Cost Effect	Freight rates up ~5x on Asia–Europe routes	Average tariff on Chinese goods: 145%
Inflation Contribution	+0.7pp core goods inflation (H1 2024)	Pent-up inflation risk across consumer goods
Main Sectors Affected	Automotive, energy, food, retail	Semiconductors, EVs, pharma, agriculture
Duration	Acute, ongoing since Nov 2023	Structural, escalating since 2018
Geographic Scope	Europe–Asia corridor, East Africa, Middle East	Global, with focus on US and China trade partners
Policy Response	Naval coalitions, rerouting, insurance surcharges	Tariff retaliation, export controls, reshoring incentives

5. THE INTERSECTION: COMPOUND DISRUPTION IN AN UNCERTAIN SYSTEM

While the Red Sea crisis and the US–China trade war arise from different mechanisms — one military-geographic, one political-economic — they are not independent shocks. They interact in at least three important ways that compound their combined damage to global supply chains.

5.1 Compounding Pressure on Logistics Infrastructure

The simultaneous closure of the Red Sea corridor and the Panama Canal (which experienced its worst drought since the 1950s in 2023–24, reducing draft capacity and throughput) confronted the global shipping industry with what amounts to the pinching of two major arteries simultaneously (J.P. Morgan, 2024). Ships displaced from one route were not simply absorbed by the other; instead, carriers competed for scarce slots on a limited number of viable routes, driving up costs across the entire system. US importers, for whom the Panama Canal provides an alternative to trans-Pacific all-water routes, gained some relief; European importers did not.

The US–China trade war layered additional complexity onto this already-stressed logistics system. As American firms began front-loading imports before tariff deadlines, port congestion spiked — particularly on the US West Coast — generating queuing delays and warehousing shortfalls. This tariff-anticipation behaviour, combined with maritime rerouting, produced episodes of extreme freight rate volatility that made supply-chain planning extremely difficult for firms of all sizes.

5.2 Selective Passage and Geopolitical Sorting

The Houthi's decision to grant safe passage to Chinese and Russian vessels while targeting ships with Western affiliations introduced an explicit geopolitical sorting mechanism into global shipping (Reed Smith, 2024). This arrangement — whether the result of explicit coordination or tacit understanding — meant that Chinese carriers operating between Asia and Europe faced lower costs and faster transit times than Western competitors. In a world already being divided along geopolitical fault lines by the trade war, the Red

Sea disruption further reinforced the bifurcation of global commerce into US-aligned and China-aligned spheres. For multinational firms attempting to serve both markets, this created deeply uncomfortable operational dilemmas.

5.3 Amplification of Vulnerability in Critical Sectors

Several sectors found themselves exposed to both shocks simultaneously. The pharmaceutical industry provides perhaps the starkest example. Many active pharmaceutical ingredients (APIs) — including those used in generic drugs consumed by millions of Americans — are manufactured in China or in facilities that depend on Chinese chemical inputs. The combination of US–China tariff escalation (raising API costs) and Red Sea disruption (delaying bulk chemical shipments from Asia) created a pincer movement on pharmaceutical supply chains, raising concerns about drug shortages that a decade ago would have been considered implausible for high-income countries.

Renewable energy supply chains — specifically the solar panel and electric vehicle battery supply chains that underpin the energy transition — faced analogous pressures. Chinese dominance in both solar manufacturing and battery cell production means that any disruption to US–China trade carries direct implications for clean-energy deployment. Meanwhile, the lithium, cobalt, and rare-earth minerals that flow through these chains must traverse maritime corridors that geopolitical instability has rendered less reliable.

6. CORPORATE AND POLICY RESPONSES: REWIRING THE GLOBAL SUPPLY CHAIN

6.1 Nearshoring and Friendshoring

The most widely discussed corporate response to these twin pressures is geographic diversification of supply. 'Nearshoring' — relocating production or sourcing closer to the final market — and 'friendshoring' — concentrating supply relationships in countries that share political alignment and strategic interests — have both accelerated significantly since 2022 (OECD, 2025).

Mexico's emergence as the largest source of goods exported to the United States in 2023 — displacing China for the first time — represents a landmark shift driven precisely by these considerations. Mexico offers geographic proximity, USMCA trade agreement coverage, a growing industrial workforce, and political alignment with the United States (Friendshoring, Wikipedia, 2024). Vietnam, India, and, to a lesser extent, Thailand and Indonesia have emerged as the primary beneficiaries of Chinese manufacturing displacement in Asia, with Apple's move of a significant fraction of iPhone production to India — targeting 25 percent of global production by 2025 — being the single most visible corporate endorsement of this strategy (Ceinterim, 2025).

It is important, however, to register the limitations of these strategies. Friendshoring involves real costs. Labour costs in alternative manufacturing locations are typically higher than in China. Infrastructure, supplier ecosystems, and workforce skills take years or decades to build. The WTO has warned that pervasive friendshoring risks fragmenting the global trading system into incompatible blocs, destroying efficiency gains that have underpinned decades of growth (Ceinterim, 2025). UNCTAD data showed, moreover, that nearshoring and friendshoring trends actually reversed in 2024 as businesses moved beyond limiting trade to geopolitical allies, reflecting the difficulty of putting these strategies into practice quickly (UNCTAD, 2025).

6.2 Industrial Policy and Reshoring Incentives

Governments have responded with an unprecedented wave of industrial policy designed to accelerate domestic production of strategically critical goods. The United States CHIPS and Science Act (2022), with USD 52 billion in semiconductor manufacturing incentives, represents the most ambitious example. The European Union's Chips Act, India's Production Linked Incentive (PLI) schemes across multiple sectors, and Japan's subsidies for semiconductor fabs are all part of the same broader shift toward state-guided supply-chain resilience (IJFMR, 2026).

These interventions are changing investment geography in measurable ways. Semiconductor fabrication capacity — historically concentrated in East Asia — is being built in Arizona, Texas, Germany, and Japan. Battery gigafactories are rising across the American Midwest and European heartland. Whether the resulting domestic industries will be internationally competitive without sustained subsidy protection remains an open and contested question.

6.3 Digitisation and Supply Chain Visibility

The crises have also accelerated investment in supply-chain digitisation. According to Capgemini research, 68 percent of supply-chain organisations had integrated artificial intelligence to enhance traceability and visibility by 2024, reporting a 22 percent boost in operational efficiency (Forbes Group, 2025). Blockchain-enabled compliance systems, digital twin modelling of supply networks, and AI-powered demand forecasting are all being deployed at scale to give firms greater situational awareness and faster response capabilities when disruptions occur.

This technological investment represents one of the more optimistic elements of the current picture: the crisis may ultimately produce more

robust, visible, and adaptable supply chains than existed before, even if the transition period is painful.

6.4 Inventory Strategy and Buffer Stocks

At a more tactical level, firms across many sectors have abandoned the strict just-in-time inventory philosophy in favour of building buffer stocks of critical components and raw materials. This 'just-in-case' approach carries carrying-cost penalties but reduces the operational risk of a single sourcing failure cascading into a production halt. The automotive industry, which bore the heaviest costs from pandemic-era semiconductor shortages, has been among the most aggressive in building strategic inventory reserves. The cost implications of this shift — essentially a sector-wide decision to hold more working capital — are non-trivial and represent a permanent increase in the cost base of just-in-time industries.

7. POLICY RECOMMENDATIONS

The analysis presented in this paper suggests a number of directions for policy action at both the national and multilateral levels.

7.1 Maritime Security and Multilateral Naval Cooperation

The Red Sea crisis demonstrates that commercial shipping — a genuinely global public good — cannot be protected by any single nation. Operation Prosperity Guardian and Operation Aspidochelone are valuable but inadequate. A more permanent multilateral framework for maritime security in critical chokepoints — analogous to existing arrangements in the Strait of Malacca — should be developed under UN or International Maritime Organisation auspices. This framework should include clear rules of engagement, burden-

sharing arrangements, and diplomatic tracks aimed at addressing root causes of maritime insecurity.

7.2 Recalibrating Tariff Policy

The current US tariff regime — with rates of 145 percent on Chinese goods — is economically self-defeating in its extremity. CEPR modelling finds it imposes greater welfare losses on the United States than on China (CEPR, 2025a). A more calibrated approach, maintaining targeted restrictions on genuinely strategic goods — advanced semiconductors, AI hardware, dual-use technologies — while reducing tariffs on consumer goods and industrial inputs that lack national-security rationale, would better serve American economic interests while preserving meaningful leverage in strategic competition. Multilateral coordination of technology export controls, through mechanisms such as the Wassenaar Arrangement, would be more effective and less distortive than unilateral action.

7.3 Supporting Supply-Chain Diversification Without Deglobalisation

Government industrial policy should facilitate the diversification of supply chains toward resilient configurations without mandating complete decoupling from China — a goal that is economically costly and largely impractical given China's role as supplier, manufacturer, and consumer. Incentives for dual sourcing, investment in infrastructure in alternative manufacturing hubs (particularly in South and Southeast Asia and Latin America), and technical assistance to developing countries seeking to attract supply-chain investment represent more proportionate interventions than blunt reshoring mandates.

7.4 Protecting Developing Economies

Developing nations — particularly in East Africa, South Asia, and the Middle East — bear geopolitical supply-chain costs without having caused them. Higher shipping costs, food insecurity, and reduced export revenues from disrupted Suez Canal traffic fall disproportionately on economies least able to absorb them. International financial institutions should expand contingency financing and trade-facilitation support for these countries, and special consideration should be given to their interests in any multilateral negotiations on maritime security or trade architecture.

8. CONCLUSION

The thesis of this paper can be stated plainly: the era in which supply-chain managers could treat geopolitics as a background variable — important occasionally, decisive rarely — is over. The Red Sea crisis and the US–China trade war have demonstrated, in ways that are difficult to dispute, that political decisions and military actions can restructure the economics of global trade faster than firms can adapt.

The numbers are stark. A 72 percent decline in Suez Canal traffic. Freight rates that quintupled on key trade lanes. A bilateral tariff rate of 145 percent that has effectively suspended a relationship between the world's two largest economies. A projected 90 percent collapse in direct US–China trade under current tariff scenarios. These are not temporary fluctuations — they represent structural breaks that will reshape investment decisions, sourcing strategies, and the geography of manufacturing for years.

Yet the appropriate response is not despair about the end of globalisation. Globalisation is not dying; it is being rewired. Firms are diversifying away from single-country dependence, building regional multi-node networks, and investing in digital tools that provide greater visibility and resilience. Governments are channelling industrial policy into domestic capacity-building. New manufacturing

hubs are emerging in India, Vietnam, Mexico, and elsewhere. These transitions are costly and slow, but they are real.

The central challenge for policymakers is to guide this rewiring in ways that preserve the efficiency benefits of international specialisation while building the resilience that geopolitical reality now demands — without crossing into a protectionist deglobalisation that would ultimately impoverish both advanced and developing economies. That is a genuinely difficult balancing act. But it is the defining supply-chain policy question of the current decade, and one that demands urgent, evidence-based attention from researchers, practitioners, and governments alike.

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