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Global trade redefined: Industrial manufacturing

Dealing with tariff uncertainty

July 2025

This report has been developed in collaboration with the Strategy& team, PwC’s global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Ref: *Accessing the situation and What could happen next*

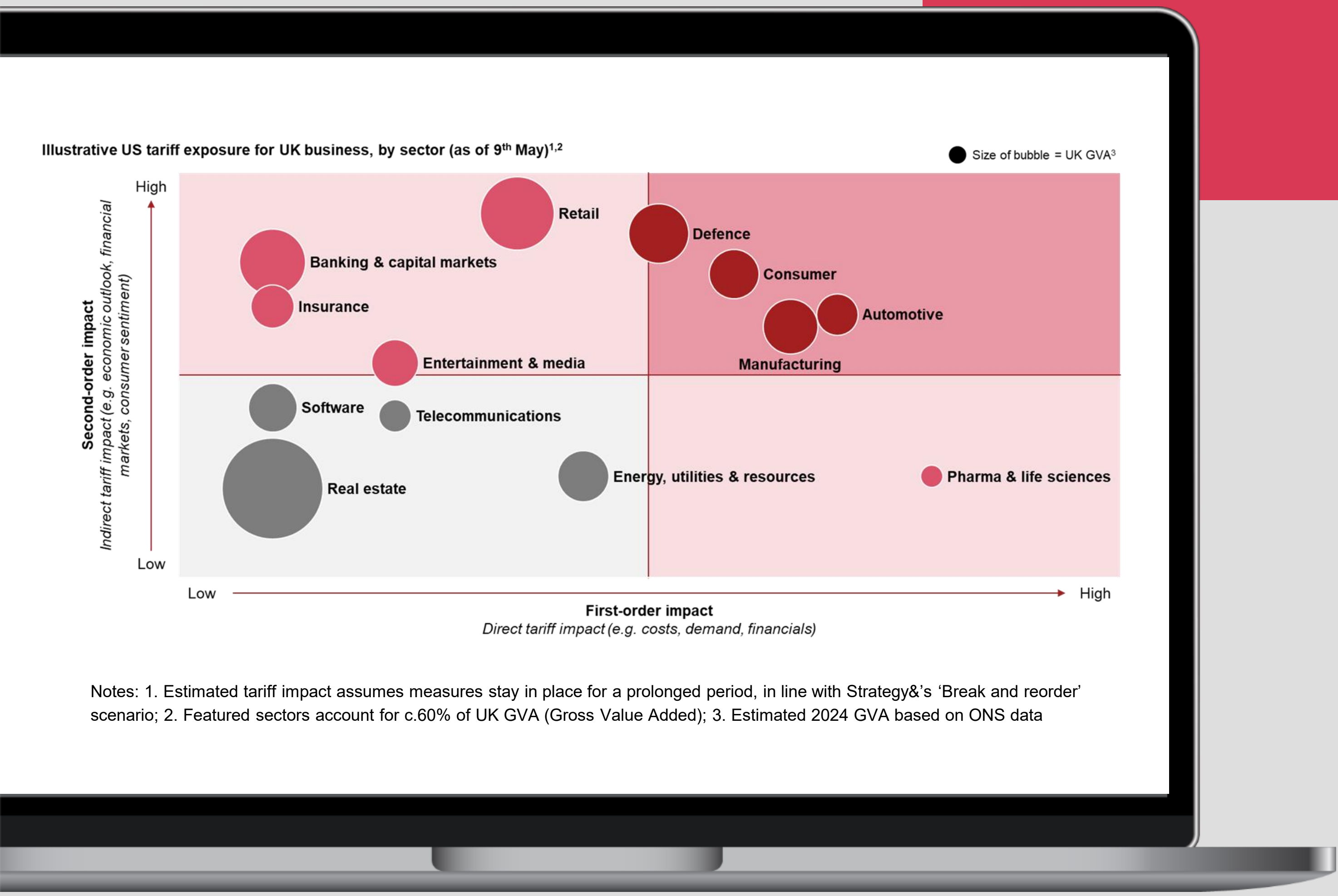
Introduction

The imposition of tariffs by the US presents another potential headwind for the UK's industrial manufacturing sector. The UK exports around £60bn of industrial manufactured goods to the US annually, making it the UK's largest export market outside the EU. The US tariffs range from 10% to 25% for different products and sectors, with some exemptions and exclusions available.

These measures will challenge the sector's competitiveness and profitability at a time when some manufacturers face excess capacity and low margins, as evidenced by the recent downturn in the Purchasing Managers Index (PMI). The extent of the tariffs will depend on the share of US exports within each business, the elasticity of demand for their products, and the ability to pass on the tariff costs to customers. A more medium-term advantage could arise if the UK is better placed than Asia and competes productively for more nearshored goods.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks



Assessing the situation

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. This marked the beginning of a tumultuous period, during which sector-focused tariffs have been implemented, pauses have been extended, and tariff letters have been issued. Businesses continue to face a materially more volatile and uncertain global trading environment as a result.

What happened on ‘Liberation Day’?

An Executive Order introduced a dual framework of US import restrictions: (1) broad-based ‘baseline’ tariffs; and (2) targeted ‘reciprocal’ measures. The UK was subject to the 10% baseline rate, while other partners were subject to much higher rates.

These tariffs sat alongside a number of product-level distinctions (e.g. automobiles, steel, and aluminium), and exemptions (e.g. pharmaceuticals and critical minerals).

Activity in overdrive

On 9 April, reciprocal tariffs were paused for 90 days - creating a window for intense diplomatic engagement between the US and its main trading partners.

As only three ‘agreements’ were reached within the initial 90-day window, this pause has since been extended to 1 August. This extension was announced alongside the issuance of formal ‘tariff letters’ which confirmed and, in some cases, revised rates.

While these letters provided clarity, they have also sparked new complexities. Some countries such as Japan and Brazil saw steep increases, while others received conditional relief. Countries must now consider how to respond, either through acceptance, retaliation, or renewed deal-making efforts.

It remains unclear exactly what will happen next as we pivot from a predictable trading environment into uncharted territory, but it is evident that **global trade is being redefined**.

Extended fragmentation

While the initial focus has been on goods, trade disruption is likely to spill into other domains. For instance, some service sectors may see sharper regulatory divergence, while others trend towards regionalisation.

Labour mobility, too, is under pressure. Migration constraints and shifting geopolitical alliances are limiting access to global talent pools, while heightened restrictions on knowledge exchange and capital flows risk slowing innovation - particularly in sensitive areas like AI and tech.

These shifts may feel abstract for UK businesses, but they carry real implications. Fragmented capital markets could restrict cross-border investment, divergent data standards might hinder digital growth, and scaling innovation across borders may become more challenging.

Businesses that once optimised for cost and efficiency must now account for robustness and agility - embedding **resilience** as a guiding principle across supply chains, partnerships, and talent strategies.

Organisations must adapt to this redefined world, with success likely to belong to businesses that can bridge the divides that others can’t yet see.

> “Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake.”
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

The contours of a new trading system

While US trade policy remains volatile, there are three defining themes which we expect will underpin the future path. Most notably, it is our view that stronger protectionism will be a guiding principle for the US - a stance which may continue to evoke retaliatory action across the globe.

As the direction of trade policy becomes clearer, businesses must shift from reactive decisions to long-term strategic planning. This means developing investment strategies, risk management frameworks, and supply chain designs that build resilience against potential future changes.

US protectionism is here to stay

Enhanced US protectionism is likely to remain for a number of reasons:

Political sensitivity – the White House has framed the tariffs as a national security issue, making it difficult to roll back policy.

Tax revenue – tariffs may generate up to 6% of total US federal income in 2025.[1]

Business backlash – businesses that have adapted operations in response to tariff announcements would be stung by policy U-turns.

New measures – even if the US decides to move beyond tariffs, other protectionist measures such as domestic subsidies or local content requirements, may be considered.

Shields will vary by sector

Policy specifics will evolve over time, but the US is likely to 'shield' particular sectors:

Tariffs will focus on industries where the US sees domestic opportunities, such as steel, automotives, and semiconductors.

Priority industries are likely to evolve over time, as the US administration better understands domestic capability and international reliance.

The US is open to carving out exemptions for partners who are willing to negotiate, as illustrated by the trade agreement reached with the UK.

Policy will remain dynamic and unpredictable

US policy will continue to evolve at pace, and is likely to remain somewhat unpredictable:

Dynamic – the US weighted average tariff rate has fluctuated through 2025, with continued volatility likely.

Unpredictable – ongoing Section 232 investigations into steel and aluminium hint that fresh measures could drop without warning.

Escalating – if threats towards trading partners such as Brazil, Mexico, and the EU materialise, the US weighted average tariff rate could climb to c.35% by 1 August 2025.[2]

Less credible – some Wall Street commentators have viewed US announcements as negotiation tactics rather than true policy direction, with policy credibility further eroded with each cycle of delay and de-escalation.

Notes: (1) January 2025 Congressional Budget Office projections – prior to the announcement of Liberation Day tariffs (2) US weighted average tariff rate reflects the average tariff imposed on goods imports to the US, considering both country-specific and sector-specific rates due to be implemented on 1 August. **Sources:** WITS, the Budget Lab at Yale, Reuters, Congressional Budget Office

Taking stock of tariffs

Understanding the impact on the industrial manufacturing sector

Tariffs will directly increase the cost of UK-manufactured goods in the US market, eroding price competitiveness and potentially displacing UK firms in favour of domestic or lower-cost international suppliers.

A perspective on the sector overall

High-value sectors such as automotive, pharmaceuticals, advanced electronics and machinery are particularly exposed. These industries depend on complex, globalised supply chains and precision assembly processes that are difficult and costly to reconfigure. As a result, UK firms may find it challenging to pivot operations or identify alternative markets quickly.

Beyond direct costs, second-order effects create additional pressure on the industrial manufacturing sector. A tariff-induced slowdown in global economic activity could depress trade volumes, investment flows, and consumer demand. Sectors that are highly cyclical, such as machinery and automotive, would likely bear the brunt of such a downturn, amplifying operational and financial pressures.

Currency volatility adds another layer of uncertainty. While a weaker pound could offset some cost disadvantages, unpredictable swings in exchange rates complicate pricing strategies and margin forecasts, particularly for firms operating across multiple jurisdictions.

Moreover, the risk of trade diversion is significant. Tariffs on other major exporters to the US may prompt a redirection of goods toward alternative markets, including the UK. This influx, especially in industries already burdened by global overcapacity, such as steel and textiles, could intensify competitive pressures and compress margins further.

Tax and operational assessment

While the medium to long-term structural impact on the industrial manufacturing sector may ultimately be significant, such shifts are likely to unfold gradually. Any operational responses or strategic interventions will need to be carefully phased over time. In the near term, however, the immediate priority for industrial manufacturing operators is to thoroughly assess and quantify the tariff implications from a tax and operational perspective. The following actions can be taken now and may have a meaningful impact on your business's overall exposure.

01 Conduct/validate impact assessments, including understanding the physical product / material flows.

02 Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.

03 Understand the country-of-origin rules and place where goods are substantially manufactured.

04 Understand the value build up of the price to ensure the custom value is correct and review cost components.

05 Consider from a transfer pricing perspective that intercompany product pricing is correct and that any revised pricing (of product or wider services) adheres to the arm's length principle (and aligns with customs considerations).

06 Consider the US specific valuation principles.

07 Review contracts to confirm whether they include a tariff cost adjuster / escalator in terms of cost

08 Consider the impact on any changes to the above on the income tax position in the US and other jurisdictions.

Navigating the potential fallout

Short and longer term actions you should take

There are several short and longer-term moves that industrial manufacturing businesses can consider in responding to the evolving market situation.

Short-term ‘no regret’ moves	Moves to capture maximum value over the longer term
• Consider the tax points noted on the previous page, evaluate the impact on income tax, transfer pricing and tariffs (taking a holistic tax view).	• Rebalance sourcing and manufacturing footprints to minimise tariff impacts, including sourcing more raw materials and components from the US or the UK to avoid cross-border tariffs.
• Run impact assessments to understand the exposure and implications of US tariffs for products, sectors, and supply chains (including the flow of materials and products across jurisdictions).	• Reshoring and nearshoring will continue to be in businesses’ key objectives.
• Review contracts with US customers and suppliers to confirm whether they include a tariff cost adjuster or escalator, which could allow for price adjustments or renegotiations in the event of tariff changes.	• Increase value-added activities in the UK or Europe to qualify for lower tariffs or to differentiate products versus competitors in high-tariff jurisdictions.
• Adjust pricing strategies to reflect the tariff impacts, depending on the elasticity of product demand, competitive dynamics, and macroeconomic context.	• Explore alternative markets, such as the Middle East or Asia, if the US market becomes less viable or attractive due to tariffs.
• Stay close to customers as they reassess their supply chains so you are well placed to offer a new route, qualify a new product or site, or offer a reformulation.	• Consider the overall tax model (customs, transfer pricing, direct and indirect taxes) implications and impact of any supply chain reorganisation so as to fully evaluate the options through an integrated business and tax perspective.

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To navigate the uncertainty beyond the immediate impact of US tariffs, industrial manufacturers need to take a longer term view around sourcing and manufacturing footprints and alternative markets.”

Cara Haffey, PwC UK Leader of Industry for Industrial Manufacturing and Services

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.

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