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Global trade redefined: Industrial manufacturing

Dealing with tariff uncertainty

April 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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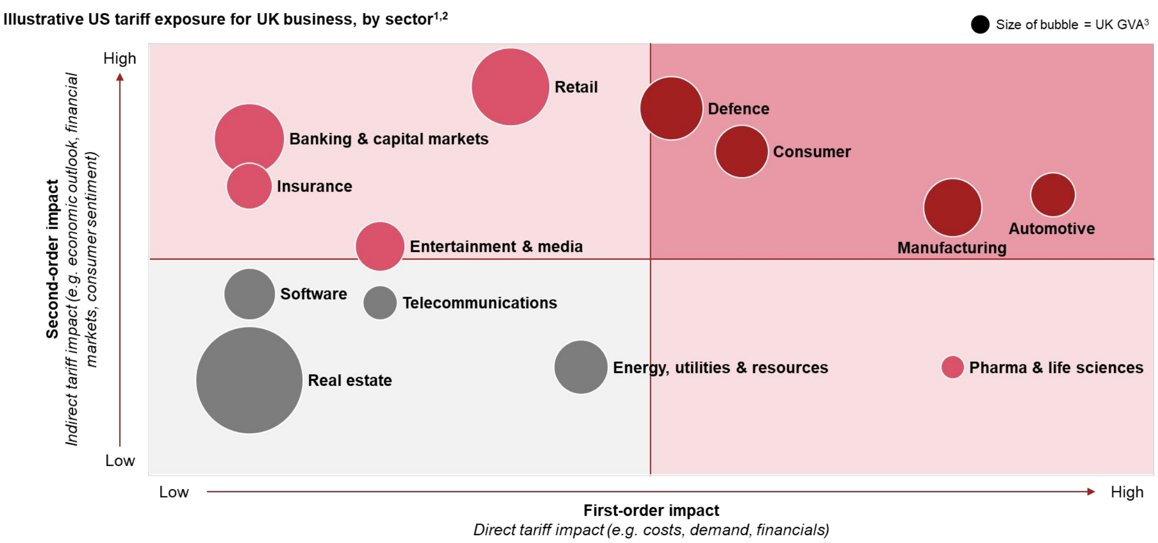
Introduction

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



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930.

The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely. The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories. Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind.

Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

> "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

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the 'baseline' tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes 'reciprocal' tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

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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