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Global trade redefined: Technology services, software and infrastructure

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

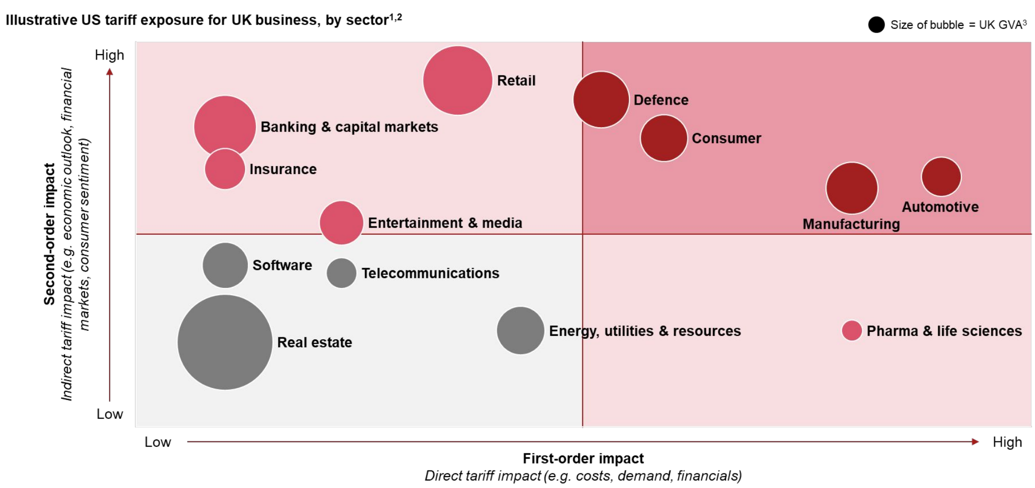
The direct impact of tariffs on UK-based technology firms remains relatively limited, particularly given exemptions on consumer electronics and the UK's predominant focus on software and services-based technology businesses.

However, the broader macroeconomic implications present more significant concerns – albeit with potential long-term opportunities. Chief among the concerns is the risk of a dampening effect on consumer and business confidence. Tariffs targeting hardware and semiconductor components (including export controls on semiconductors and chip manufacturing equipment) could meaningfully disrupt global technology supply chains, with knock on effects on downstream activities and innovation cycles.

Beyond tariffs, there are a range of regulatory flashpoints, including the Digital Services Tax, Antitrust frameworks, and artificial intelligence (AI) governance, which have contributed to perceptions in the US that European and UK regulations don't align with the interests of American Big Tech. If the recent tariffs reflect a broader strategic shift in US policy, there is a heightened risk that regulatory trensions could escalate, amplifying uncertainty and potential disruption for the global tech sector. These developments warrant close scrutiny by UK tech leaders and policymakers alike.

Some common industry actions:

1. Scenario plan determining first-order and second-order impacts and risks.
2. Move ahead with 'no regret moves' in the short term while investing sufficient time to shape concrete strategic choices which can be executed based on downstream scenarios.
3. Be deliberate in seeking out growth opportunities, these may be in adjacent areas or as a consequence of how other trading partners respond with changes to their own tariff regimes.
4. Embed ongoing resilience and decision-making frameworks 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 Southeast 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.

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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 aid our clients to better understand how the future of tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes that are happening, we've chosen to limit these to tariff policy. We are however 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, up to and including Canada, Mexico as well as 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 in force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including for 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 8th 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 April 2, 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 8th July, 2025. With this in mind, the EU, Japan, China and other economies retaliate, in equal measure, to the tariffs. 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 much closer trading relations with China. These changes are rapidly also reflected in investment flows.

Taking stock of tariffs

Understanding the tariff impact on the technology services, software and infrastructure sector

First-order impacts

US import tariffs are set to apply to physical goods, with a larger direct effect on industries and sub-sectors with a significant manufacturing component. As such, the first-order impact on software and digital services is likely to be relatively modest.

Nonetheless, data centre operators - including hyperscaler 'cloud-based' propositions (dependent on imported hardware such as servers, devices, networks and other data centre infrastructure) - are likely to face a significant direct tariff impact. UK-based data centre operators are generally less reliant on US imports and could potentially benefit from greater access to raw materials from other markets.

Second-order impacts

UK and EU-based technology exporters will experience a series of challenges, and possibly new opportunities, from the broader macroeconomic fallout. Slower global economic growth and longer-term suppression in consumer and business confidence are likely to negatively impact demand for the underlying sectors served by software and technology businesses. Plus, recent declines in technology firms' share prices may hinder investment plans, resulting in lower long-term growth forecasts.

Currency fluctuations and any weakening of the US dollar would lead to lower prices for UK or European customers, increasing the competitiveness of US-based vendors and potentially offsetting the impact of reciprocal tariffs. This could increase pricing pressure on European firms, underscoring the ongoing need for UK tech businesses to differentiate themselves through research and development (R&D), innovation and high-value services.

A tax perspective

01 Tariffs are applied to tangible goods when they are physically imported across an international border. This concept only extends to certain services integral to the goods themselves. What this means is that tariffs don't directly attach to the services provided by technology companies but would indirectly increase the cost for the consumer of services.

02 Some devices, such as smartphones, and key components used in technology, such as semiconductors, are currently excluded from US tariffs. But the list of exclusions is not exhaustive and the situation is fluid – technology businesses can expect further disruption and pricing impacts.

At the same time, UK technology businesses are grappling with an increasingly fragmented global tax landscape, which we would expect to increase in light of the US administration's tariff moves. Some 30+ countries, including the UK, are pursuing or have enacted Digital Services Taxes (DST) on revenues from search engines and social media services to online marketplaces, adding a layer of compliance complexity for multinational tech firms. At the same time, the OECD's push for consistency remains contentious, with US resistance to digital taxation alignment fuelling tensions. This uncertainty complicates long-term strategic planning and increases operational risk and cost for UK tech players with global footprints.

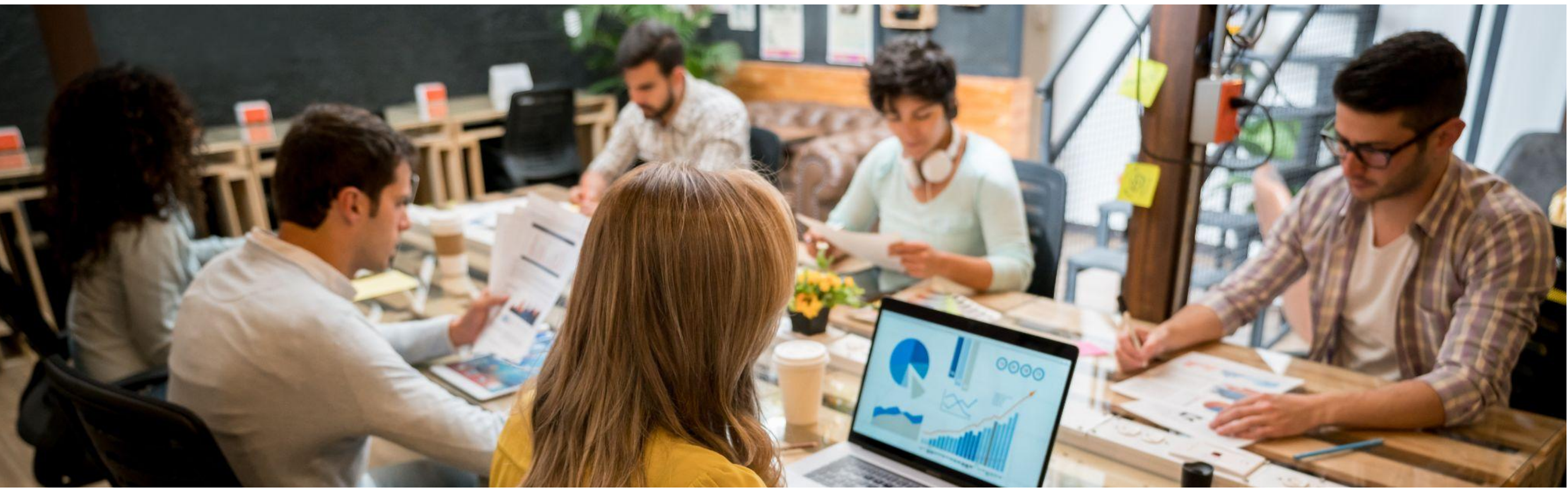
Tariffs today, tensions tomorrow

UK and European tech businesses should monitor policy developments and prepare for potential regulatory tension

Perceptions that UK and European regulation does not align with the interests of US Big Tech across a number of topics threatens to drive tensions over the medium term

Beyond tariffs, as a major exporter of technology services and software, the US may increasingly adopt a more assertive trade policy aimed at protecting key domestic players. If tariffs are indicative of a broader strategic shift, the potential for deeper disruption to the global tech industry is significant.

Topic	US view
Digital Service Taxes (DST) Several European countries have introduced taxes on the revenues of large multinational tech companies, many of which are based in the US. The US has seen these moves as potentially discriminatory and threatened retaliatory tariffs and pauses in global tax negotiations. While efforts to reach a multilateral agreement continue, delays have led some countries to pursue or maintain unilateral action.	"Though America has no such thing, and only America should be allowed to tax American firms, trading partners hand American companies a bill for something called a digital services tax." **White House official, February**
Antitrust regulation The EU has been actively enforcing its Digital Markets Act (DMA), issuing substantial fines to major tech firms for alleged anti-competitive practices. Some US officials have criticised the EU's enforcement approach - claiming it disproportionately targets American companies - and have proposed reciprocal measures against European firms operating in the US.	"Extraterritorial regulations that specifically target and undermine American companies, stifle innovation, and enable censorship will be recognized as barriers to trade and a direct threat to free civil society." **White House spokesperson, April**
AI regulation The EU's AI Act introduces a comprehensive, risk-based framework that places strict obligations on providers of high-risk AI systems, as well as general purpose models. In contrast, the US has favoured a lighter regulatory approach, citing concerns that overly stringent rules could stifle innovation. Efforts to establish common transatlantic standards face ongoing challenges.	"We believe that excessive regulation of the AI sector could kill a transformative industry just as it's taking off, and we'll make every effort to encourage pro-growth AI policies." **JD Vance, US Vice President, February**



Navigating the potential fallout

Actions you can consider

UK tech businesses can consider various short- and long-term moves to address the evolving market and ongoing volatility.

Short-term ‘no regret’ moves	Moves to capture maximum value over the longer term
Continuously monitor exposures and structures, adjust pricing and cost strategies by leveraging currency fluctuations, negotiating better deals for hardware components and data center capacity, and passing on any cost savings or increases to customers.	Analyse and identify opportunities to strengthen competitive advantage and differentiation by focusing on quality, reliability and security of technology services, while offering value-added features and benefits that can attract and retain customers.
Engage with trade bodies and where possible government agencies, to make sure industry voices and proposals are reflected in trade discussions across tax and regulation.	Explore strategic partnerships and alliances by collaborating with other tech firms, especially those from Europe or other non-UK regions, to leverage their complementary strengths and capabilities and create synergies and economies of scale.
Consider the tax implications and potential impact of evolving international rules on digital services and profit allocation. Proactively assess exposure to DST, global minimum tax frameworks and shifting transfer pricing expectations to help mitigate risk and inform strategic decisions on structure, investment, and market focus.	Adapt to the changing regulatory and compliance landscape by staying informed and updated on the various digital service taxes and other rules and regulations that apply to different countries and regions, and by ensuring that requirements are met to avoid any penalties.

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UK tech firms should track tariffs exposure and currency shifts across supply and customer markets – adjusting pricing and supply strategies accordingly. Volatility also presents a chance to explore local tech supply chains and innovations to capture share, especially from firms operating in markets subject to greater tariff impacts.”

Warren Tucker, PwC UK Cloud & Digital Leader

Key contacts

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

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