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Global trade redefined: Technology services, software and infrastructure

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

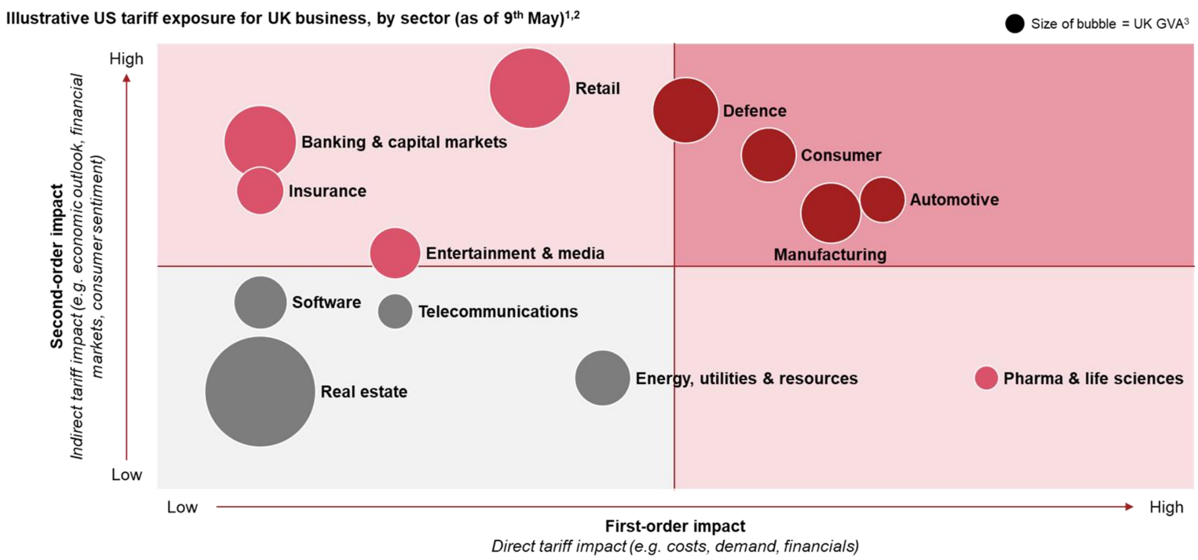
The direct impact of tariffs on UK-based technology firms remains relatively limited, particularly given exemptions on consumer electronics and the UK's predominant focus on software and services-based technology businesses.

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.

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 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.

"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.

Mary Shelton-Rose

PwC UK Leader of Industry for Technology, Media and Telecommunications

maryshelton.rose@pwc.com

Warren Tucker

PwC UK Cloud & Digital Leader

warren.w.tucker@pwc.com

Bobby Maclay

Strategy& Technology Partner

bobby.maclay@pwc.com

Carrie Hale

PwC UK Technology Sector Tax Leader

carrie.e.hale@pwc.com

Barret Kupelian

Strategy& and PwC UK Chief Economist

barret.g.kupelian@pwc.com

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