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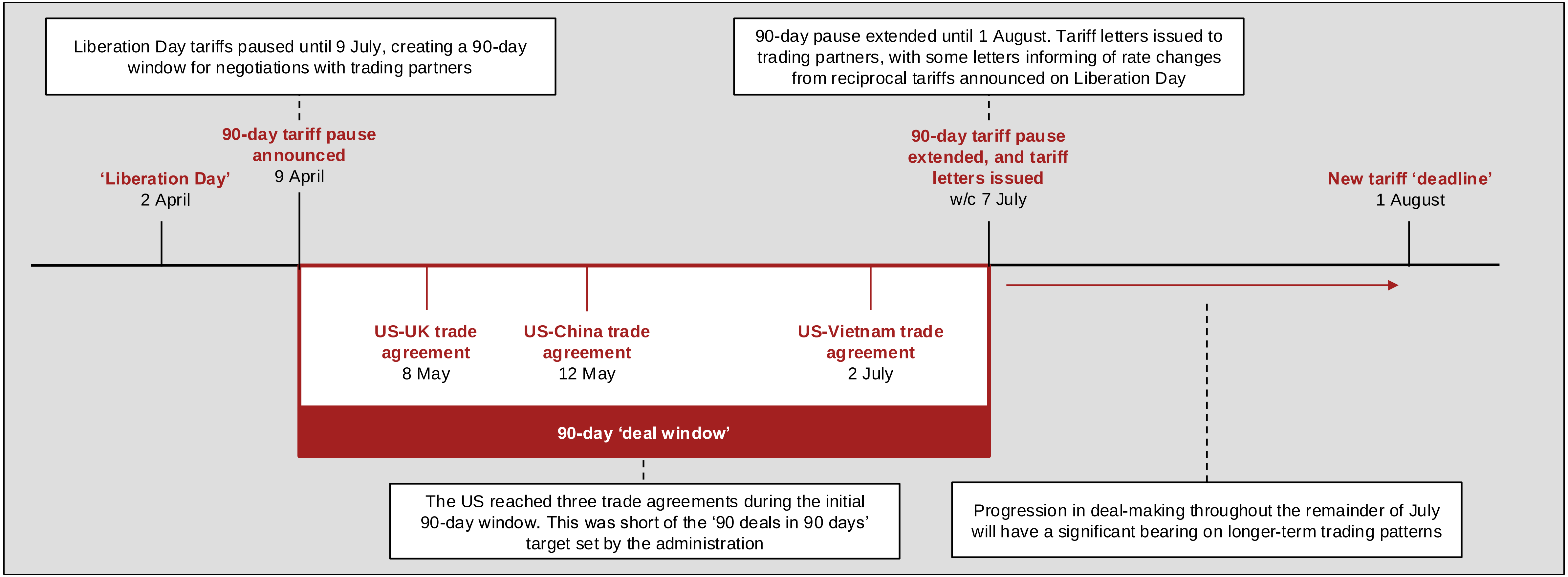
Global trade redefined: Beyond the fog?

15 July 2025

As the global trading system edges back towards reciprocal tariffs, the White House has started issuing ‘tariff letters’ which provide clarity on rates

Timeline of selected US trade policy changes since Liberation Day, 2025

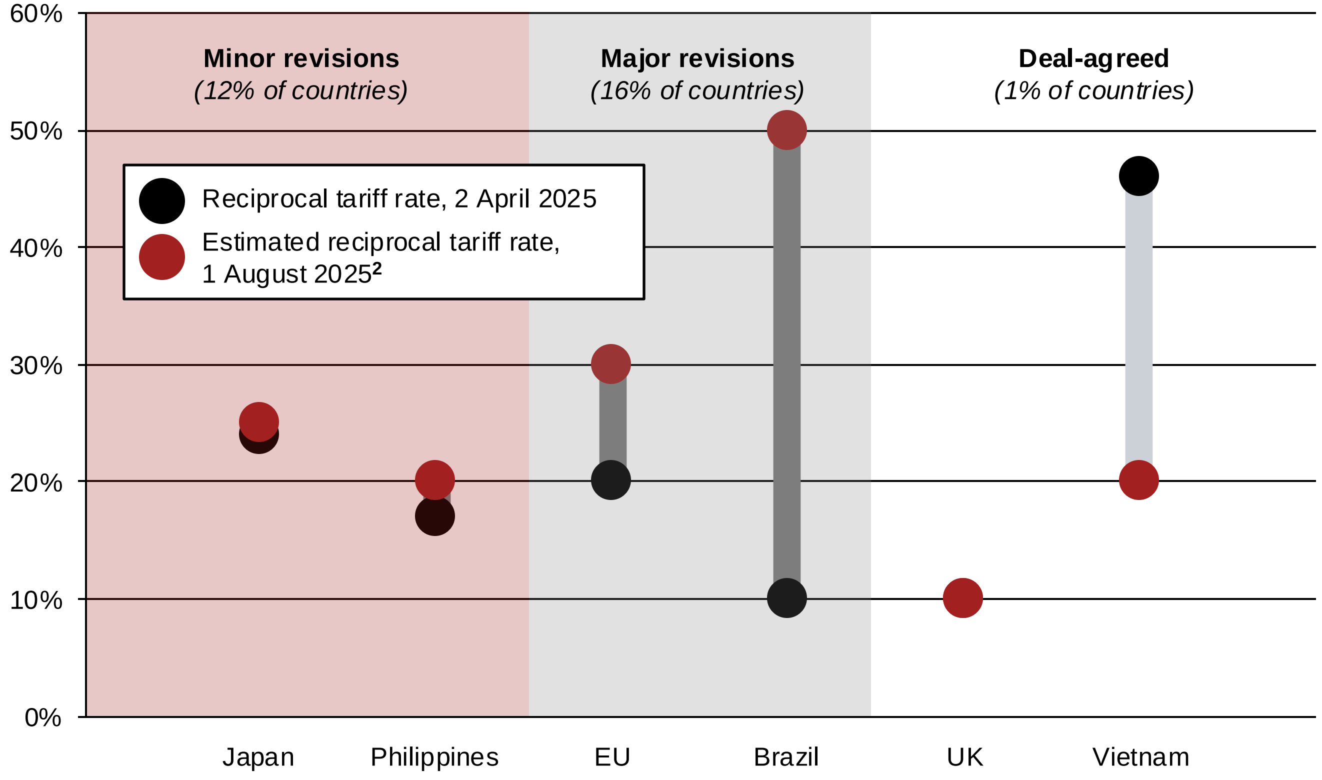


While many tariffs remain consistent with Liberation Day, more than a quarter of economies have experienced rate revisions which may prompt further negotiations

Global overview of reciprocal tariff rate[1] changes made between 2 April and 1 August[2]

Category	Description	Share of global GDP[3]
Minor revisions	Reciprocal tariff rate expected to change by between 0ppt and 10ppt[4]	13%
Major revisions	Reciprocal tariff rate expected to change by more than 10ppt[4]	24%
Deal-agreed	Reciprocal tariff rate unlikely to change as countries have reached a trade agreement with the US since Liberation Day	4%
Awaiting	Uncertainty remains for countries subject to reciprocal tariffs who have not yet received tariff letters	23%
Other	Countries not previously subject to reciprocal tariffs, or countries subject to individual procedure.[5]	36%

Illustration of the change in reciprocal tariff rates (%)[1] imposed by US on goods imports between 2 April (Liberation Day) and 1 August[2] for selected economies



Notes: (1) Reciprocal rates differ from the 'effective' tariff rate faced by each country, as reciprocal rates do not include sector-specific tariff rates or exemptions. (2) Best estimate of tariff rates that will be implemented on 1 August, based on letters already issued and predictions for forthcoming letters. (3) Calculated by aggregating the 2023 real GDP of countries subject to each form of tariff revision and dividing by total global GDP. (4) Inclusive of both increases and decreases in tariff rate. (5) For example, tariff exemptions (e.g. Russia) or time-limited trade agreements (e.g. China). | Source: PwC Analysis, BBC, the White House, PIIE, House of Commons Library, BMI

The contours of a new global trading system are beginning to emerge through the fog, as it becomes clear that stronger US protectionism will persist as a strategic priority

1. 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, local content requirements, or further import quotas may be considered.

2. 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 willing to carve out exemptions for partners who are willing to negotiate**, as illustrated by the trade agreement reached with the UK.

3. Policy will remain dynamic and unpredictable

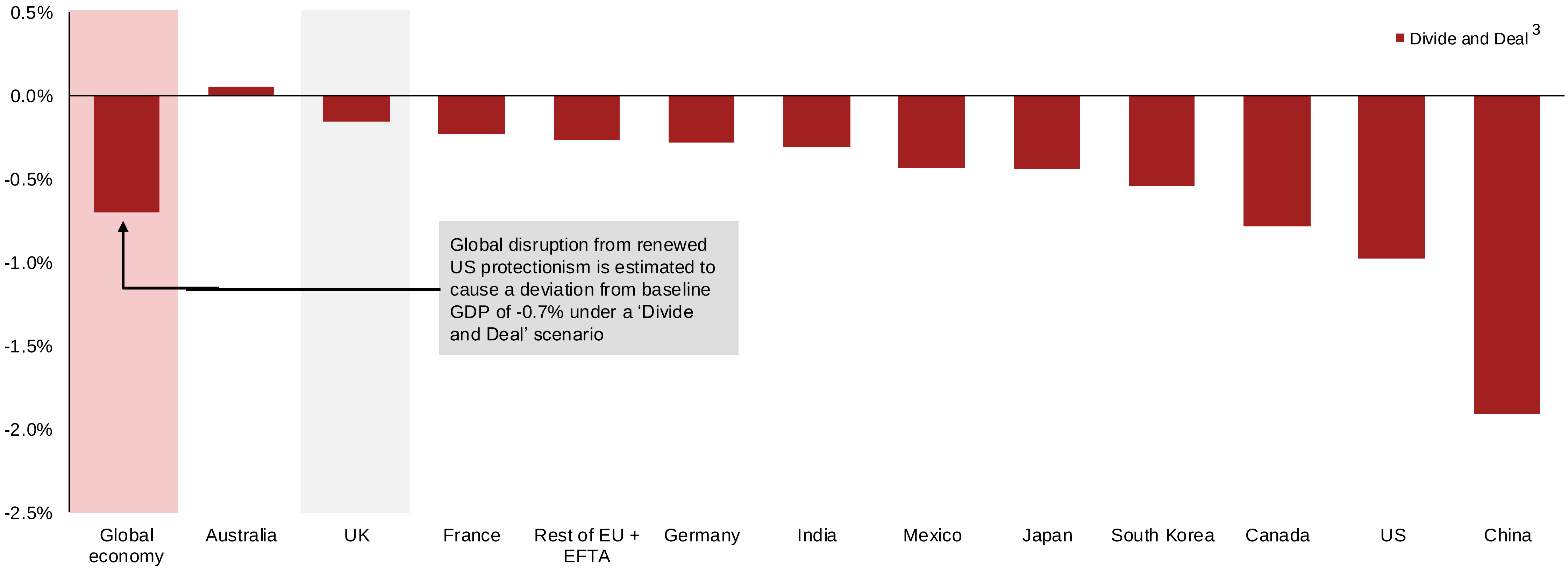
US policy will continue to evolve at pace, and is likely to remain somewhat unpredictable:

- **Dynamic –** the US weighted average tariff rate has fluctuated between c.3% and c.30% 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. For full methodological detail underpinning this estimate, please contact the authors of this report listed on page 7. | Sources: WITS, the Budget Lab at Yale, Reuters, Congressional Budget Office

Our previous analysis* suggests that a more protectionist trading environment will drag on short-term global economic growth

Estimated short-term[1] deviations in GDP generated by US tariffs under a 'Divide and Deal' scenario (% deviations)[2]



Notes: (*) Modelling conducted in May 2025. Therefore, outputs reflect a general 'Divide and Deal' scenario which does not include the specific rates announced through June and July 2025. (1) Short-term is defined as impacts at the end of the first period of the shock, (2) Outputs reflect the combined impact of tariffs and shocks. (3) Agreements are reached with some trade partners, implemented by Q1 2026. Reciprocal tariffs re-imposed for economies unable to reach trade agreement. Tariffs on China remain elevated, with reciprocal Chinese measures. | Source: PwC analysis.

While protectionist policies are currently centered on trade in goods, fragmentation may spill into other domains - impacting the movement of services, people, ideas, and capital

Goods

- Volatile policy is making cross-border goods trade more difficult. US container imports were down 28% annually in June.[1]
- Physical goods are becoming more difficult and more expensive to source internationally due to mounting transport costs. Shipping costs for a 40-foot container travelling from China to the UK have surged by approximately 60% in the past three months.[2]

Services

- While most service sectors remain open to free trade, selected industries – notably financial services – are likely to face tighter restrictions.
- Trade in services may become more regionally concentrated, with intensified integration within economic blocs.

People

- Tighter migration controls may constrain access to global talent pools, while there is evidence that demand for US jobs from foreign workers has declined.[3]
- Political frictions may also alter behaviours – for example, firms in Canada may reduce engagement with US contractors.
- These changes may accelerate AI adoption or increase investment in homegrown sources of productivity.

Ideas

- Geopolitical tensions could reduce willingness to share innovation - particularly in strategic and technological domains.
- Defence sectors may face outsized repercussions, given new technology often relies on wider global advancement.
- A reduction in knowledge exchange could also dampen global economic growth.

Capital

- Restrictions may be placed on sources of foreign capital intended to fund future projects, particularly in sectors of strategic interest to the state.
- Restrictions on the ownership of strategic assets may also be imposed.

Sources: (1) Descartes System Group; (2) Bloomberg; (3) Forbes

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- Competition economics
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