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Global trade redefined: Early insights and economic impacts of new agreements

May 2025

This report offers early insight into recent trade agreements, and estimates global economic impacts associated with deal-oriented trade scenarios

Understanding trade agreements

A number of landmark trade agreements have been reached in recent weeks. Section 1 of the report provides insight into the nature of these arrangements, and the impact that is likely to be delivered.

- **UK-US Economic Prosperity Deal**
- **UK-India Free Trade Agreement**
- **US-China Tariff Agreement**
- **UK-EU Summit**

Section 1: Early Insight

Defining ‘most likely’ trade scenarios

Estimating economic impact

Given positive signs from early trade talks, we believe a ‘Break and Reorder’ scenario is increasingly unlikely. As such, we estimate the economic impact associated with our deal-oriented’ trade scenarios, ‘Stabilise and Rebuild’ and ‘Divide and Deal’. Section 2 presents the results of our economic impact analysis for these two scenarios.

1. Stabilise and Rebuild
2. Divide and Deal
3. Break and Reorder

1. Stabilise and Rebuild
2. Divide and Deal

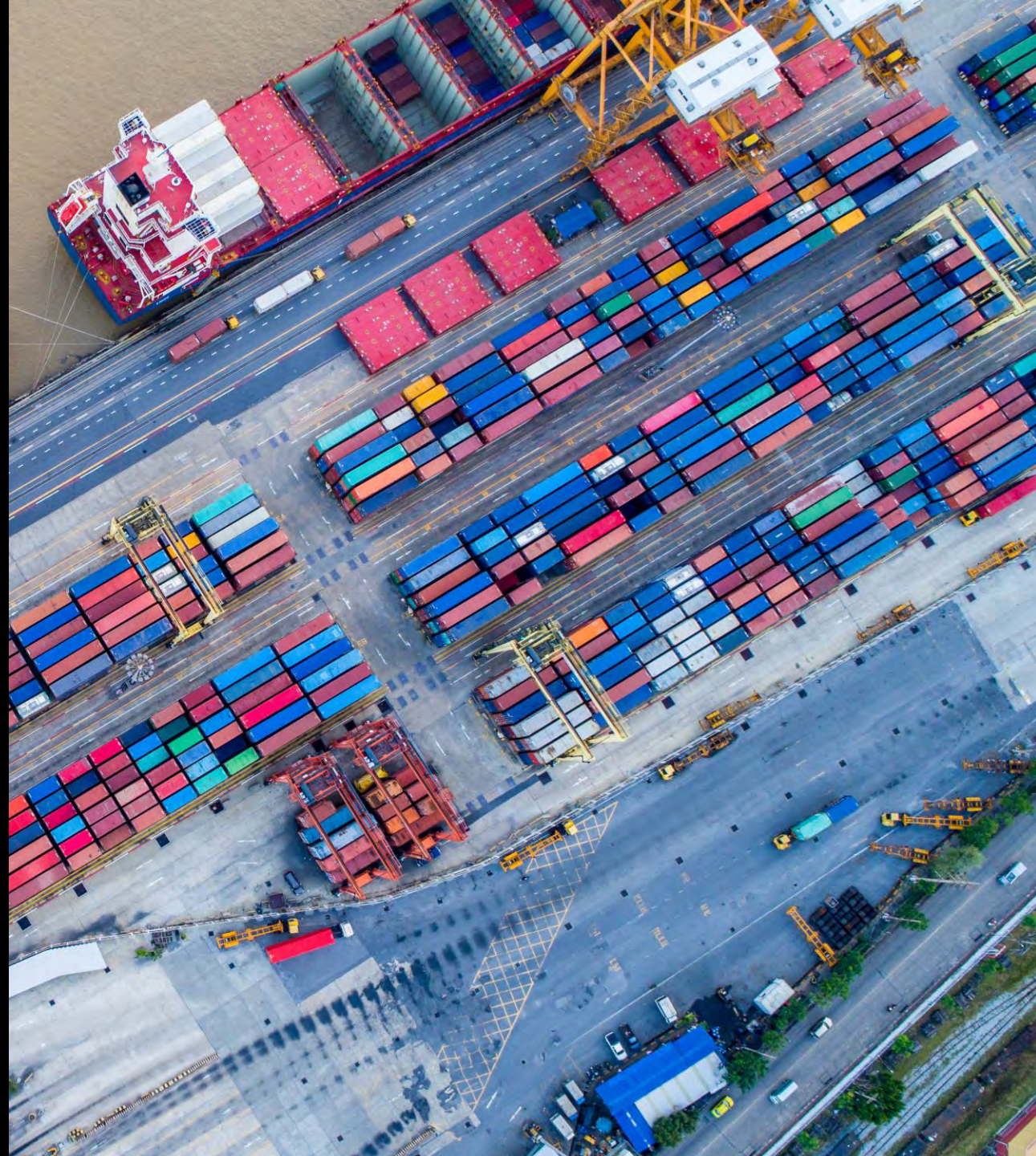
Section 2: Economic impact

1. Early insight

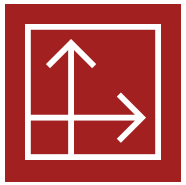
Liberation Day tariffs generated widespread disruption, including change in short-term trade patterns and volatility in global markets.

Disruption may be succeeded by de-escalation. The United States is beginning to broker agreements with major trading partners and lower tariff rates.

This section provides analysis on some of the key agreements and deals made to date, including the UK-US and US-China trade agreements.



Several landmark trade agreements have been reached, offering early perspective on an otherwise uncertain global trade environment

	UK-US Economic Prosperity Deal	UK-India Free Trade Agreement	US-China Trade Agreement	UK-EU Trade Agreement
	Agreement on selected goods traded between the US and UK reached on 8 May 2025.	Agreement reached on 6 May 2025, although it will come into effect following the completion of legal processes and ratification by both countries' parliaments.	Headline rate agreement reached on 12 May 2025, effective 14 May.	Summit on 19 May 2025 focused on resetting post-Brexit relations between the UK and the EU.
	Agreement covers automobiles, aluminium, steel and beef. For example, US tariffs on steel and aluminium have been reduced to zero, while tariffs on cars have been reduced to 10%[1]. The UK has made similar concessions, granting wider access for agricultural exports and ethanol.	Significant tariff cuts have been made on goods by both parties, with India committing to reducing tariffs on over 90% of tariff lines in the long run. Additionally, market access for services in sectors including finance and telecoms will be enhanced.	The US and China announced a 90-day pause on 'reciprocal' tariffs, agreeing to lower headline rate of tariffs by 115 p.p. This will lower US tariffs on Chinese imports to 30%, while Chinese tariffs on US imports will be cut to 10%.	The UK-EU agreement extends fishing rights until 2038, reduces food export checks, and links carbon markets. It also includes a new defence pact, allowing the UK to participate in the £150bn loans-for-arms fund.
	Some ambiguity remains on nuances of the Agreement, including those relating to other product lines (e.g. pharmaceuticals)[2].	Agreement has been reached, although details on specific tariff lines are yet to be published.	Detail on specific tariff lines and exemptions yet to be published. Agreement only in place for 90 days, but there are expected to be further negotiations[2].	The EU and the UK have agreed to work together on developing a youth mobility initiative, but details of the scheme remain unclear.

Note(s): (1) For the first 100,000 units exported, (2) There are likely to be further updates to section 232 tariff rates, covering all sectors, which may affect tariff rates specified under the agreements.

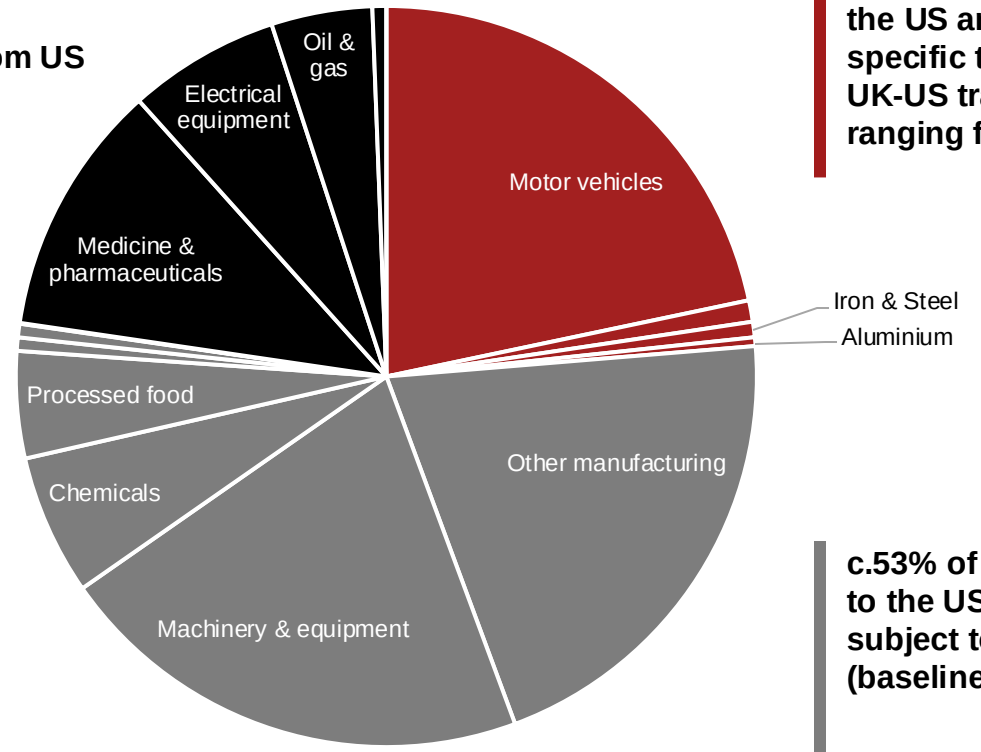
The UK-US trade agreement covers less than a quarter of UK goods exports to the US, with more than half of exports still subject to a 10% 'baseline' tariff rate

Share of UK exports to the US (%), split by goods category, 2024. Goods categories grouped by tariff protocol faced.[1]

Context: Prior to the UK-US trade agreement reached on 8 May, the UK was subject to a 27.5% tariff on automobile exports and a 25% tariff on steel and aluminium exports to the US. The new trade agreement reduces tariffs on automobiles to 10%[2], and exempts steel and aluminium exports from tariffs.

Impact: Approximately 23% of UK exports to the US are subject to sector-specific tariff rates under the new trade agreement, of which over 90% are motor vehicle exports. Approximately 13% of all UK car production is exported to the US, meaning lower tariffs will generate a significant benefit for manufacturers.

c.23% of UK goods exports to the US remain exempt from US tariffs.



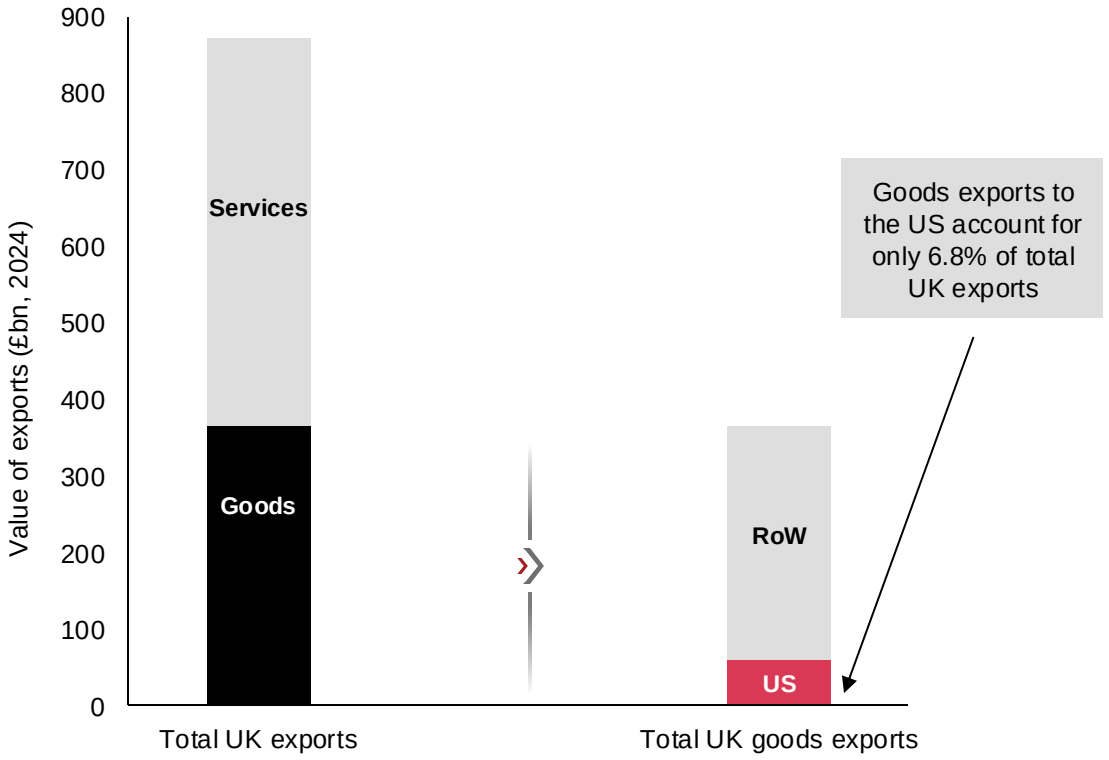
c.24% of UK goods exports to the US are subject to sector-specific tariff rates under the UK-US trade agreement, ranging from 0% to 10%.

c.53% of UK goods exports to the US remain subject to the 10% (baseline) tariff rate.

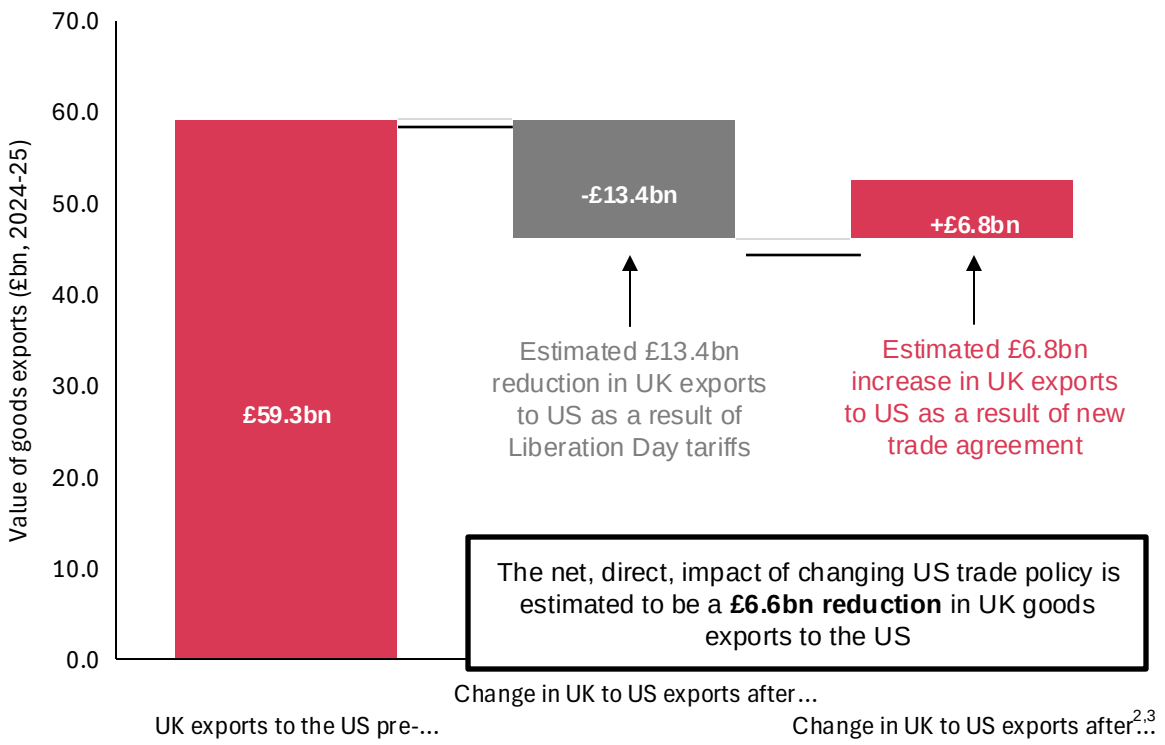
Note(s): (1) Results reported according to an amended version of (E) grouped GTAP classification. Please see Annex A1 for description of classification; (2) For the first 100,000 units exported.
Source(s): ONS, PwC analysis.

The agreement fails to offset the negative economic impacts generated by higher US tariffs, but does offer some relief relative to Liberation Day rates

Total value of UK goods exports to the US relative to value of total UK exports (£bn)



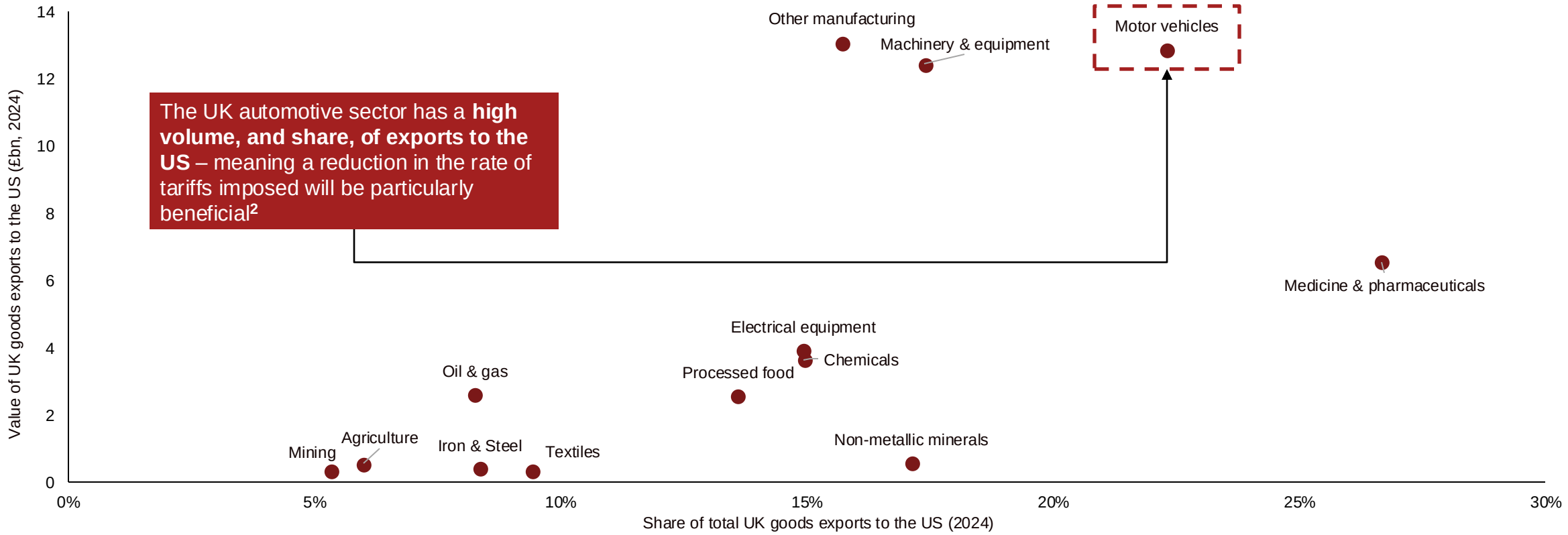
Estimated change in annual goods exports from UK to US as a result of Liberation Day and the UK-US trade agreement (£bn), relative to 2024[1]



Note(s): (1) The UK-US trade agreement is yet to be passed by the US congress– a timeline that might overrun the 90-day freeze, implying the UK might still face the full effects of Liberation Day tariffs for a period of time. (2) We assume that UK exports exempt up to a quota will not exceed the quota. (3) Considers an estimate of product categories that may fall under steel and aluminium derivatives.
Source(s): ONS, House of Commons Library, Ahmad and Riker (2020), UK GOV Press Release, PwC analysis.

US tariffs on UK manufacturers remain higher than in January, although UK automobile manufacturers will welcome a slight unwinding from Liberation Day

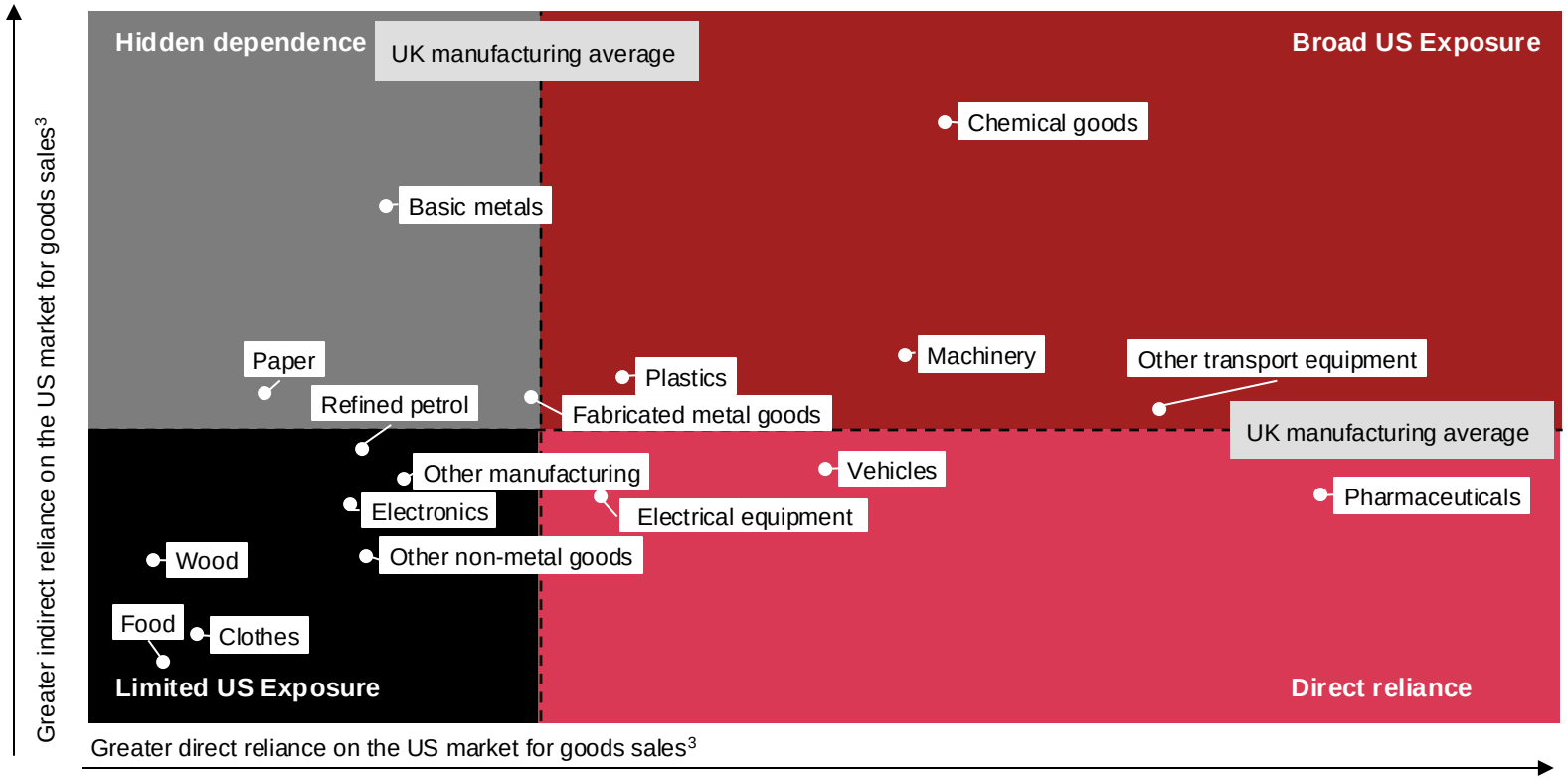
Value of UK goods exports to the US by sector (£bn, 2024) and share of total UK goods exports to the US (%, 2024)[1]



Note(s): (1) Results reported according to an amended version of (E) grouped GTAP classification. Please see Annex A1 for description of classification. (2) In the recent trade agreement, US import tariffs on automotives have been reduced from 27.5% to 10% for the first 100,000 units of UK exports. This remains a higher rate than pre-Liberation Day tariffs. | **Source(s):** ONS, PwC analysis.

Trade talks with the US are expected to continue, with negotiations likely to centre on UK goods markets with 'direct reliance' on US consumption

UK manufacturers' direct and indirect sales exposure to the US, % of output that is sold directly or indirectly to the US for final use, 2020[1,2]



Quadrant descriptions

Broad US Exposure:
Sectors heavily reliant on US demand, both directly and via third countries. A focal point of exposure risk.

Hidden Dependence:
Sectors quietly reliant on US demand through global supply chains — less visible but still vulnerable.

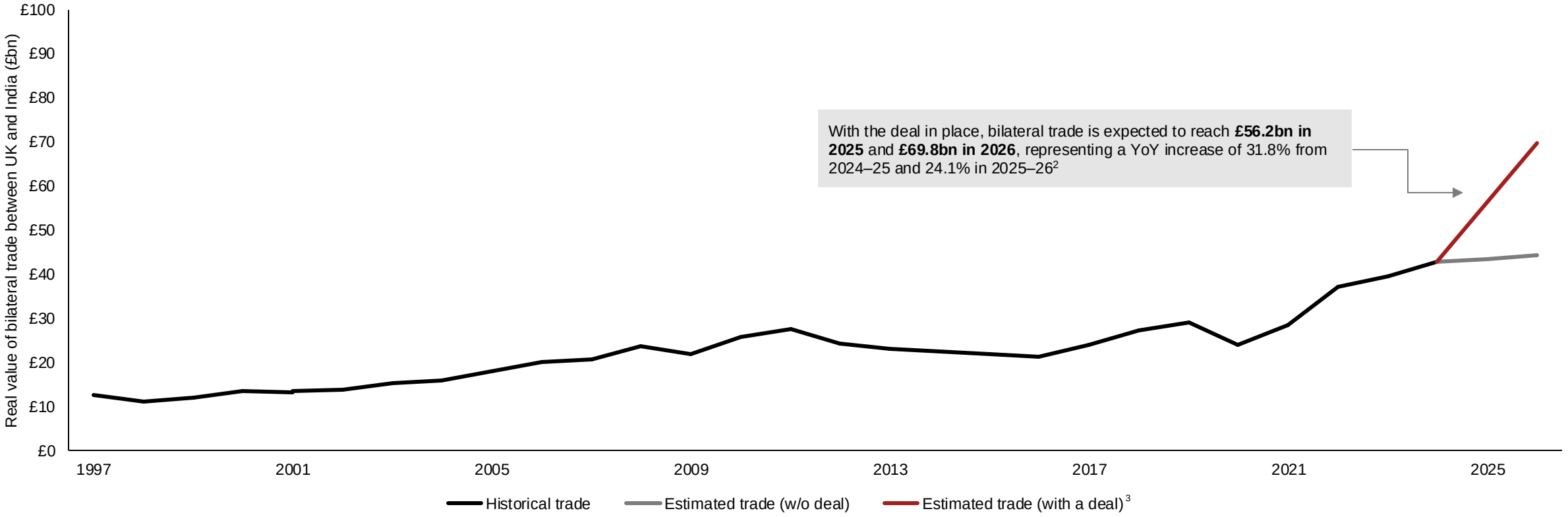
Direct Reliance:
Sectors trading with the US directly, with limited upstream embedded in third-country exports.

Limited US Exposure:
Limited exposure to US demand, either as a direct customer or indirectly through other markets.

Note(s): (1) Results reported according to (B) ONS SIC (2-digit level) classification, please see Annex A1 for description of classification; (2) Each measure is normalised by the UK's look-through exposure to all foreign partners and itself. This ensures that the indicators range between 0% and 100%, where higher values imply higher exposure; (3) Direct reliance: Higher share of total sector output sold directly to the US. Indirect reliance: Higher share of total sector output sold indirectly to the US
Source(s): Bank of England, PwC analysis.

The UK has also agreed a trade deal with India, generating up to a £25.5bn annual increase in bilateral trade between 2025 and 2040

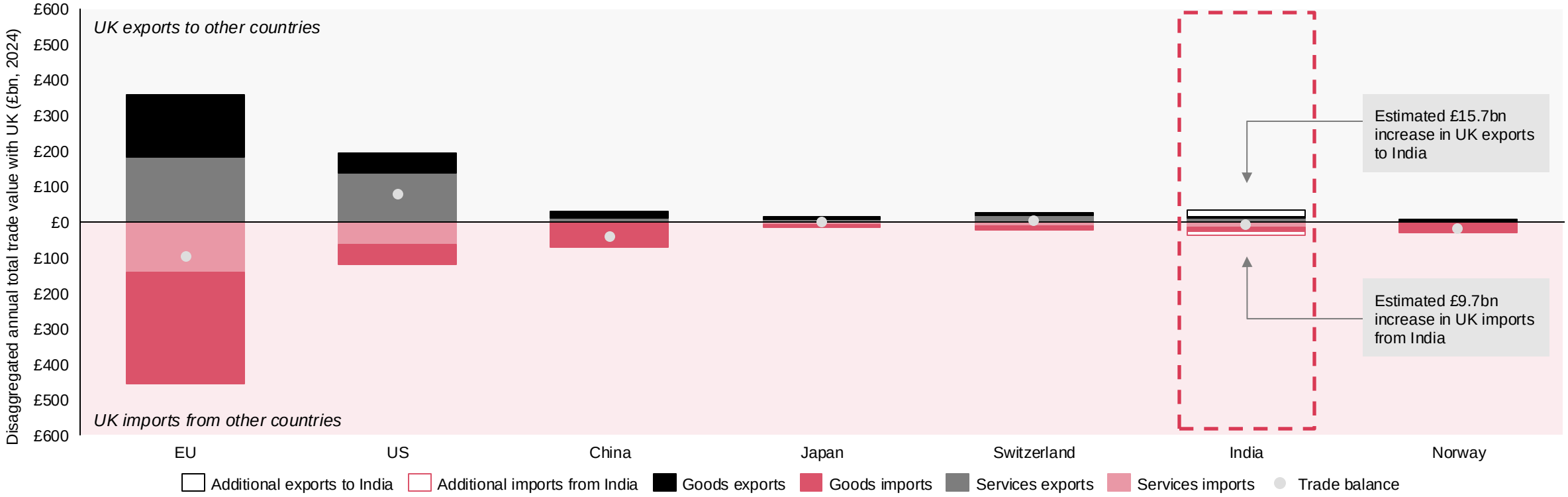
Real bilateral trade between the UK and India, historic and forecast (£bn)[1]



Note(s): (1) Real values obtained by using the world GDP deflator, 2023 prices, (2) The no-deal estimate assumes a 1.9% CAGR in bilateral trade, based on 2010–2024 data. (3) Deal-related increases are modelled relative to long-term trend, with £12.8bn of the impact expected in 2025 and the full £25.5bn by 2026.
Source(s): DBT, ONS, World Bank, PwC analysis.

While this deal is large compared to other trade agreements the UK has reached since Brexit, India will remain a relatively small trading partner compared to the EU and US

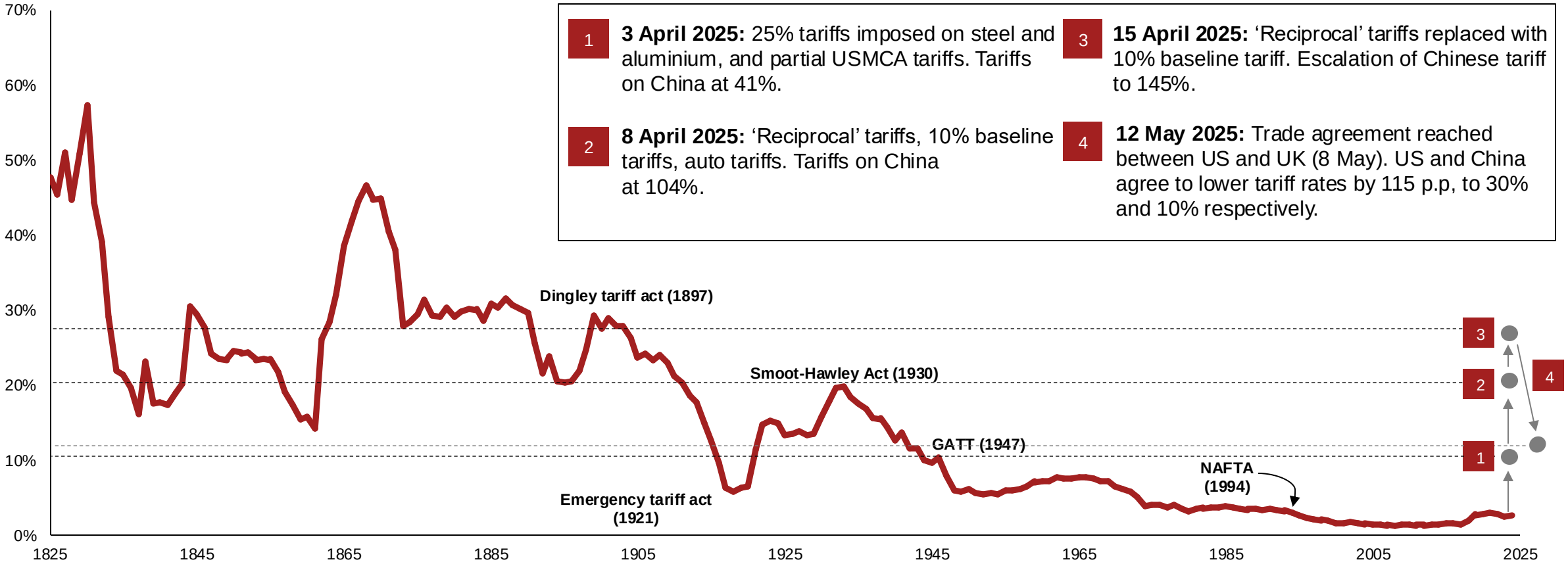
Disaggregated annual total trade values of UK, imports and exports, for top seven trading partners (£bn current prices, SA[1], 2024)



Note(s): (1) SA = Seasonally adjusted
Source(s): DBT, ONS, PwC analysis.

The US and China have reached a temporary trade agreement, with both nations lowering tariffs by 115 p.p. This reduces the US average weighted tariff rate by 15.3 p.p.

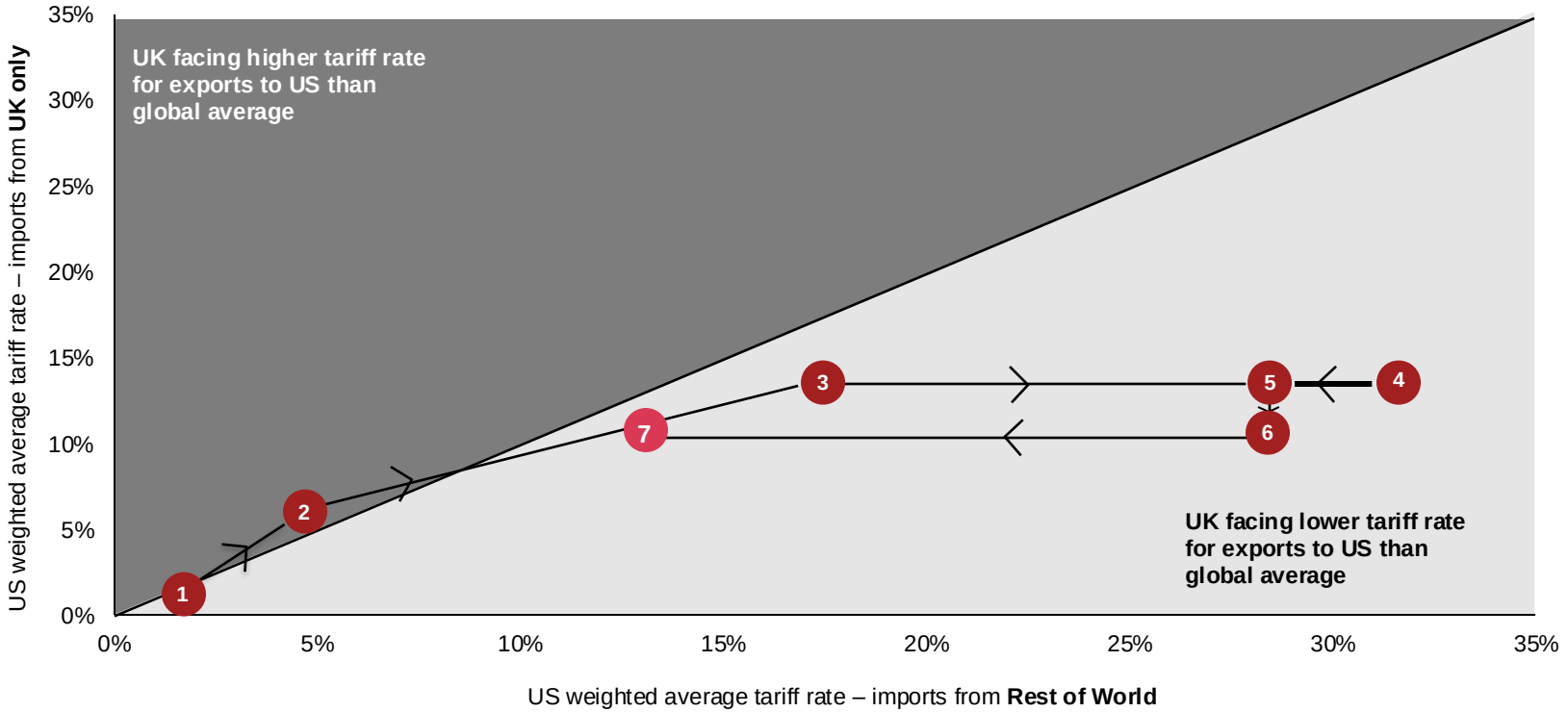
US weighted average tariff rate, 1825 – 2025[1]



Note(s): (1) This analysis assumes pre-announcement trade shares remain constant at 2024 levels.
Source(s): Our World in Data, PwC analysis.

The UK may suffer a slight reduction in trade competitiveness as a result of this agreement, with tariff rates becoming less 'favourable' relative to other US partners

Comparison of average US weighted tariff rate (%), UK vs Rest of World

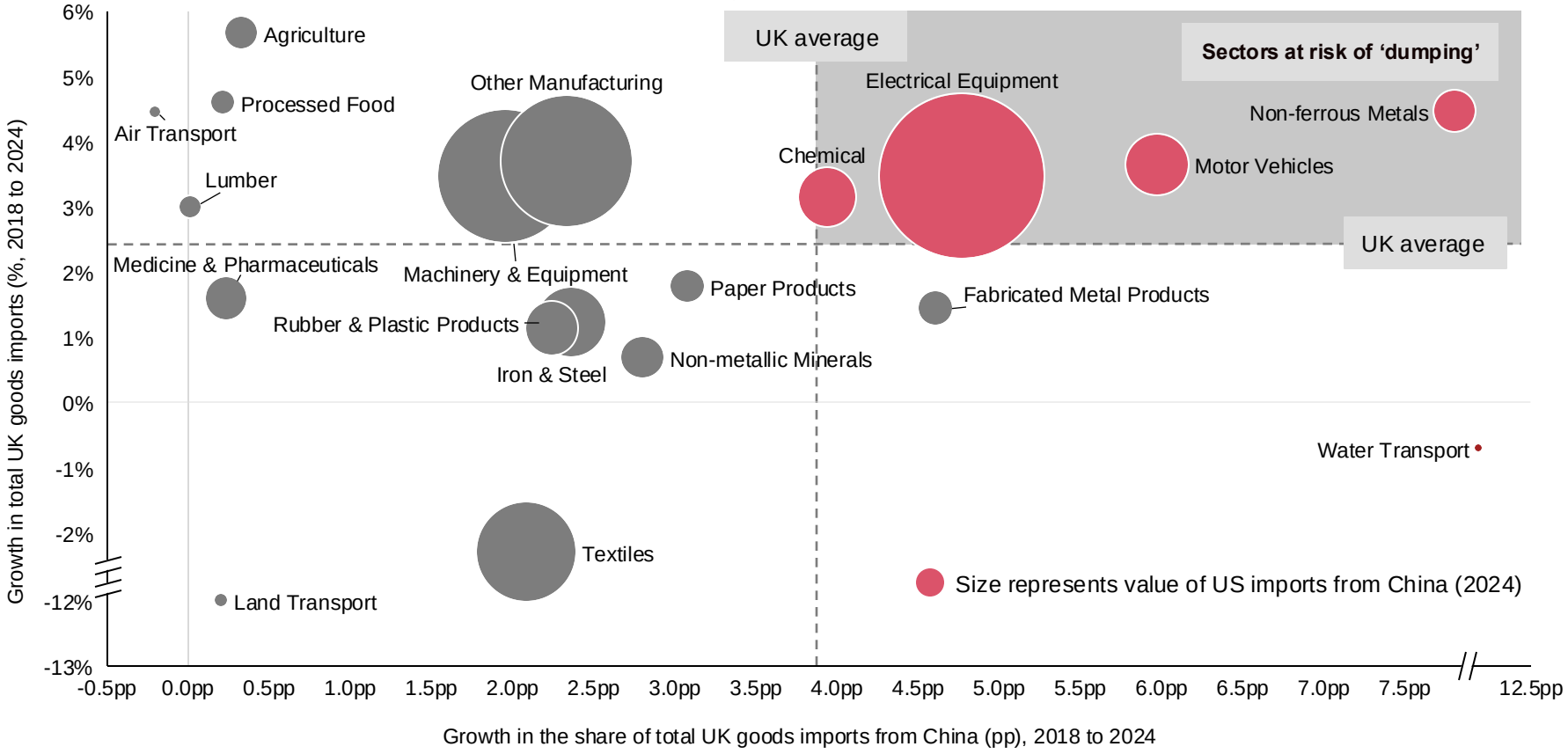


1. 2022 US weighted average tariff rate sourced from world integrated trade solution.
2. Introduction of steel, aluminium and car import tariffs.
3. Initial Liberation Day tariffs, including 34% tariffs on US imports from China.
4. Initial Liberation Day tariffs, including 145% tariffs on US imports from China.
5. Updated Liberation Day tariffs, following 90-day freeze.
6. US-UK trade agreement.
7. Current position, following US-China trade agreement.

Note(s): (1) This analysis assumes pre-announcement trade shares remain constant at 2024 levels.
Source(s): World Integrated Trade Solution, BBC, Reed Smith, US Census Bureau, PwC analysis.

However, lower tariffs between the US and China will lower the risk of Chinese 'dumping' into UK markets – protecting domestic manufacturers

Indicative exposure of UK sectors to 'Chinese dumping'[1]



The US maintaining a high tariff rate on Chinese imports (e.g. 145%) would have significantly lowered US demand for Chinese goods. Many of these goods would have been 'displaced' from the US to other markets, for instance the UK.

The UK sectors most exposed to this displacement include electrical equipment, motor vehicles, and non-ferrous metals, where the UK is importing a growing share of goods from China, and the US consumes large quantities which may be displaced.

A reduction in the rate of tariffs imposed by the US on Chinese goods will help sustain US demand, protecting UK businesses operating in exposed sectors.

Note(s): (1) Results reported according to an amended version of (E) grouped GTAP classification. Please see Annex A1 for description of classification.
Source(s): US Census Bureau, ONS, PwC analysis.

The UK and EU have reached agreement on a number of areas - tackling previously contentious issues, driving closer cooperation, and reducing red tape

Topic	Summary of agreement reached
Fishing 	• A 12-year deal has been agreed which grants EU boats access to UK fishing waters. The UK and Norway will agree annual quotas and issue licenses to control access. • Announcement of a £360mn fund to invest in coastal communities, boosting local economies.
Farming 	• The EU has agreed to reduce checks on food imports from the UK in exchange for fishing waters access. • The agreement includes market access for UK exporters to the EU for products previously blocked (e.g. raw burgers)
Defence and security 	• The EU has agreed to cooperate with the UK on the Security Action for Europe (Safe) - a £150bn EU fund providing loans for defence projects. • Increase in engagement and institutional cooperation between UK and EU to align on national policy.
Youth experience scheme 	• The UK and EU have started discussions on a capped and time limited youth mobility scheme. • While details are still unclear, the scheme is expected to be in line with existing UK schemes with countries such as Australia and New Zealand (e.g. annual quota of work visas granted).
Carbon and energy 	• The UK and EU have agreed to collaborate on their carbon markets to save tax costs on carbon-intensive goods (e.g. steel and cement) travelling between the two regions.

2. Economic impacts

Changes in the cost of trade will influence global and national economic output.

We have modelled the economic impact associated with deal-oriented scenarios, 'Stabilise and Rebuild' and 'Divide and Deal'.

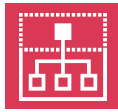
This section of the report presents the findings of this analysis, with a particular focus on the economic implications at a global level.

We are going from a predictable trade regime to a new equilibrium. We do not know what that looks like yet, but we have created three scenarios to guide our thinking

1. 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.

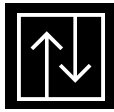


2. Divide and Deal

US reverses tariff policy, initiating time-bound trade talks with selected partners (EU, UK, Canada, Mexico), excluding China and some South-East Asian economies.

- Agreements reached by 8 July 2025 are implemented by end-2025 or Q1 2026; baseline tariffs apply during negotiations.
- If no agreement within 90 days, reciprocal tariffs are re-imposed, as per the 2 April 2025 announcement.
- For China, tariffs remain as per latest US policy, with reciprocal Chinese measures.

Over time, excluding the US, G7 economies develop mechanisms for closer trade, regulatory, and investment cooperation.

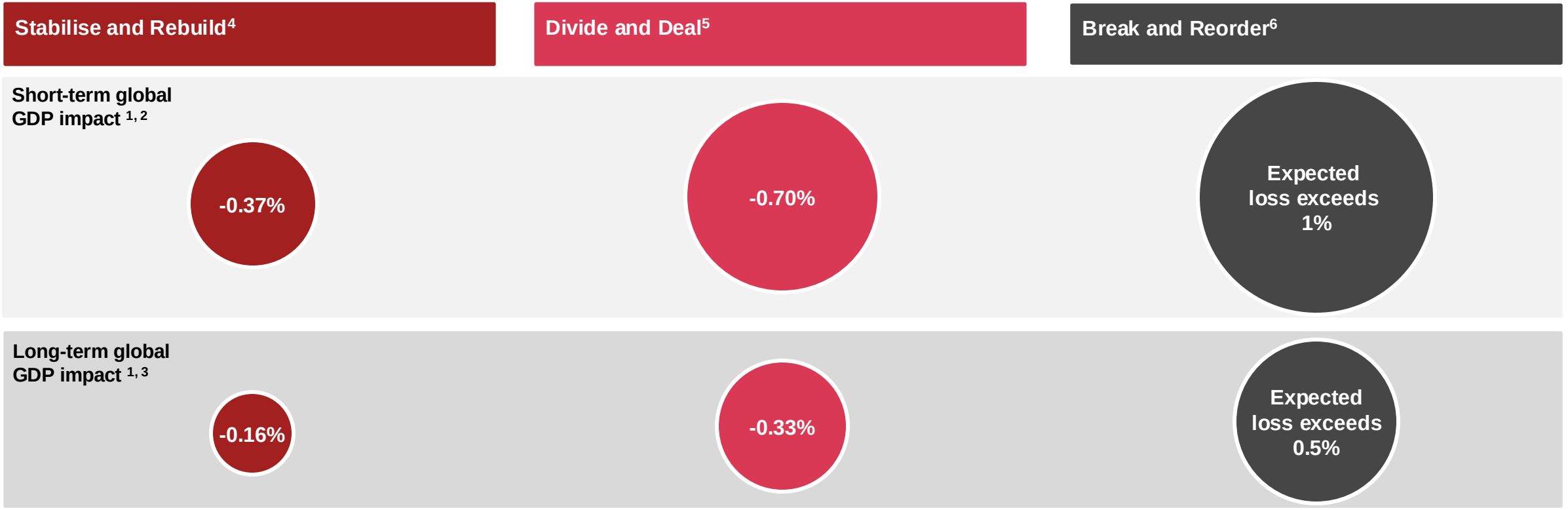


3. Break and Reorder

Trade negotiations between the US and major partners such as the EU, UK, Canada, and others collapse. The US intensifies efforts to eliminate its goods trade deficit, reimposing 'reciprocal' tariffs by July 2025. The EU, Japan, China, and others retaliate, with measures extending to services and public procurement.

In response, ex-US G20 economies rapidly establish new trade, regulatory, and investment cooperation. Some non-European countries may seek Customs Union ties with the EU, while South-East Asian economies strengthen trade with China. Investment flows quickly adjust to these changes.

The global GDP impact compared to baseline is negative in all three scenarios, with the magnitude of shock more severe in the short-run than the long-run

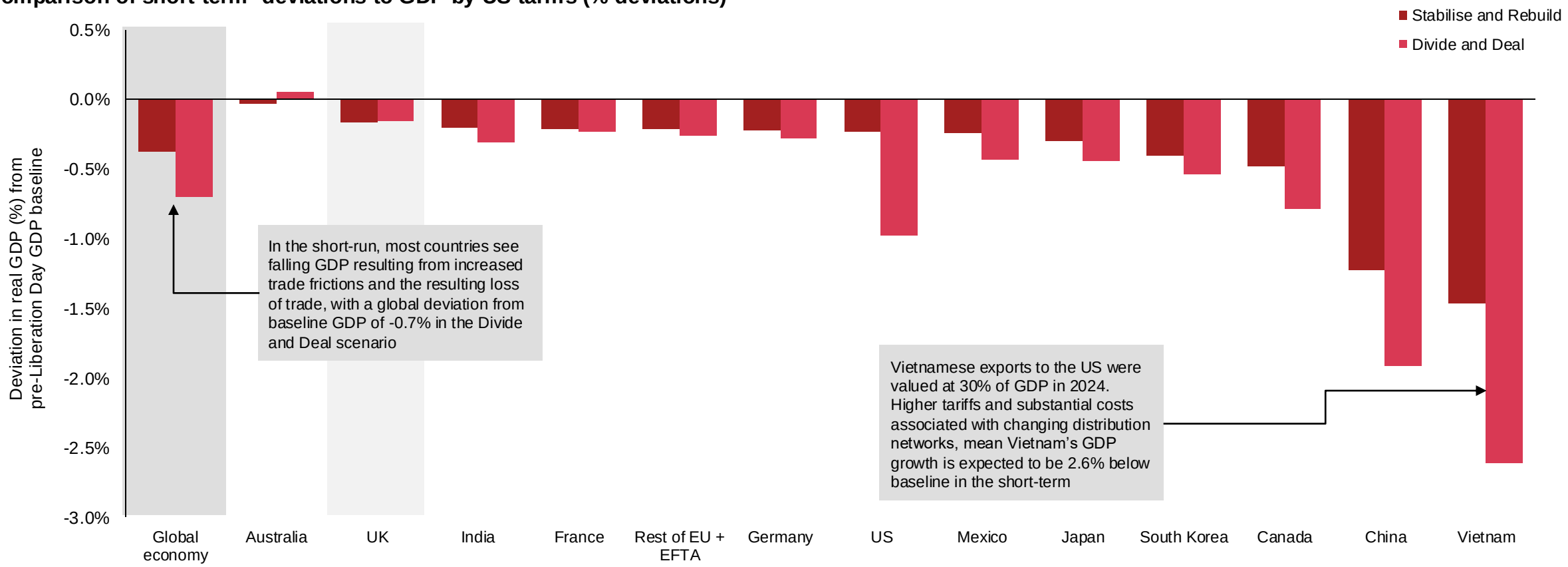


Given the positive signs from early trade talks, a 'Break and Reorder" scenario is considered increasingly unlikely. As such, all further analysis focuses on our 'deal-oriented' trade scenarios: 'Stabilise and Rebuild' and 'Divide and Deal'.

Note(s): (1) GDP impact is defined as the deviation in real GDP from a pre-Liberation Day GDP baseline, (2) Short-term is defined as impacts at the end of the first period of the shock, (3) Long-term is defined as total changes over the 5 periods post shock. Modelling considers the combined impact of tariffs and shocks – please refer to Annex B for detail on modelling methodology, (4) Please refer to Annex B5 for scenario parameters, (5) Please refer to Annex B6 for scenario parameters, (6) The estimates for the 'Break and Reorder' scenario are extrapolated from the 'Stabilise and Rebuild' and 'Divide and Deal' scenarios and are not directly modelled. This is because the Break and Reorder scenario goes far beyond historical trade disruptions. The passthrough of tariff costs, consumer responses and supply chain disruptions essential to the model calibration are more uncertain in this scenario | **Source(s):** PwC analysis.

Even in deal-oriented scenarios, short-term GDP impacts are negative for almost all economies. Nations suffer due to ‘stickiness’ in trading patterns

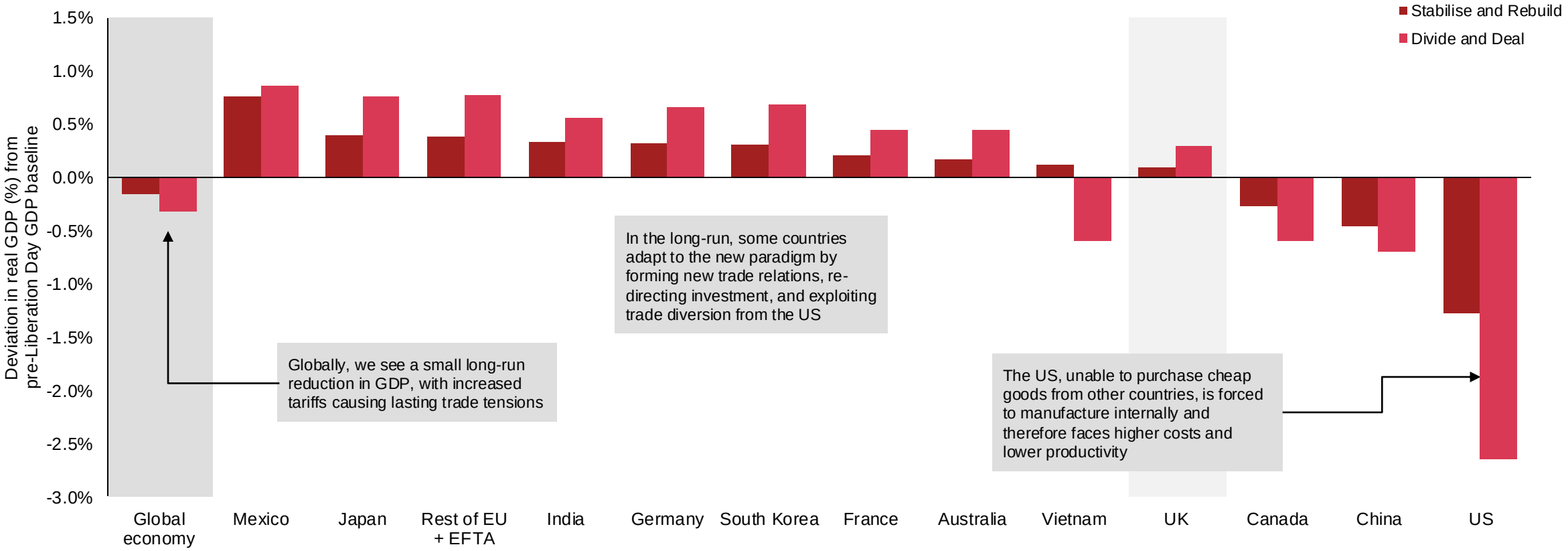
Comparison of short-term[1] deviations to GDP by US tariffs (% deviations) [2, 3, 4]



Note(s): (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) Shocks are described in more detail in Annex B3, (4) Please refer to Annexes B5 and B6 for scenario parameters
Source(s): PwC analysis.

In the long-term, some countries adapt by re-routing trade. However, gains are uneven, and tariffs remain a net negative for the global economy

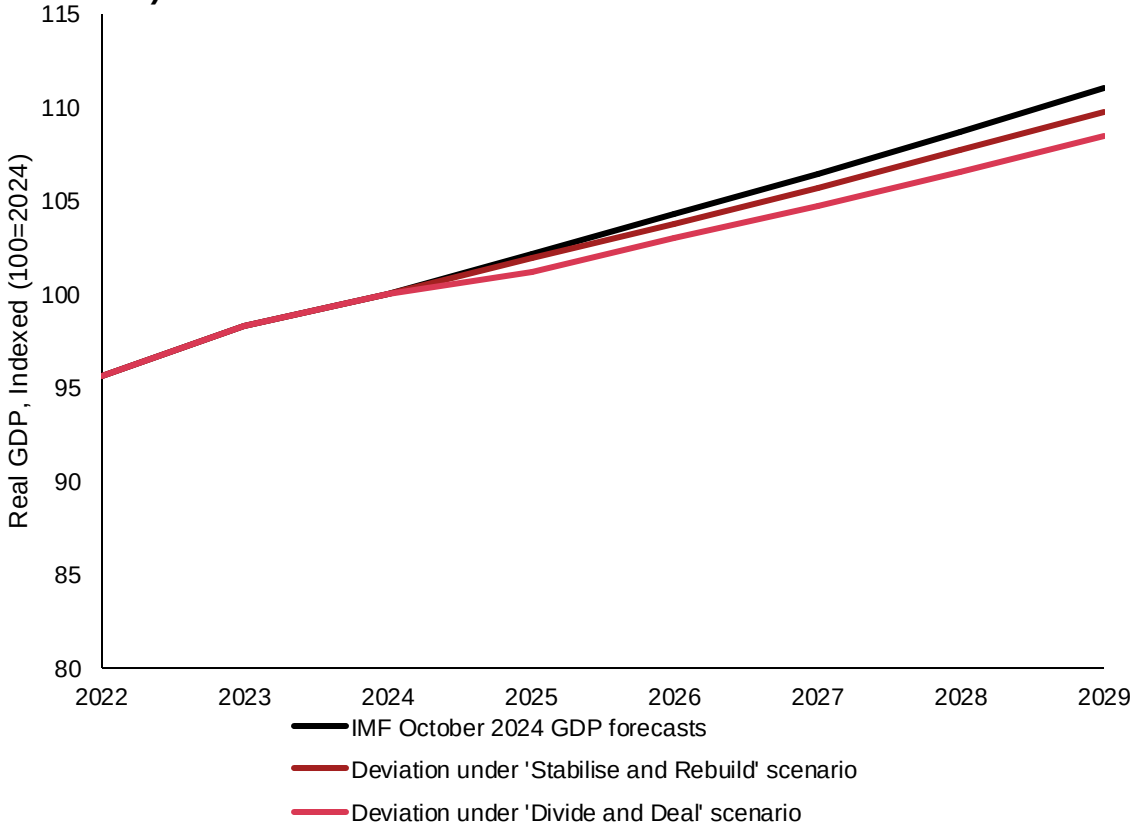
Comparison of long-term[1] deviations to GDP by US tariffs (% deviations) [2, 3, 4]



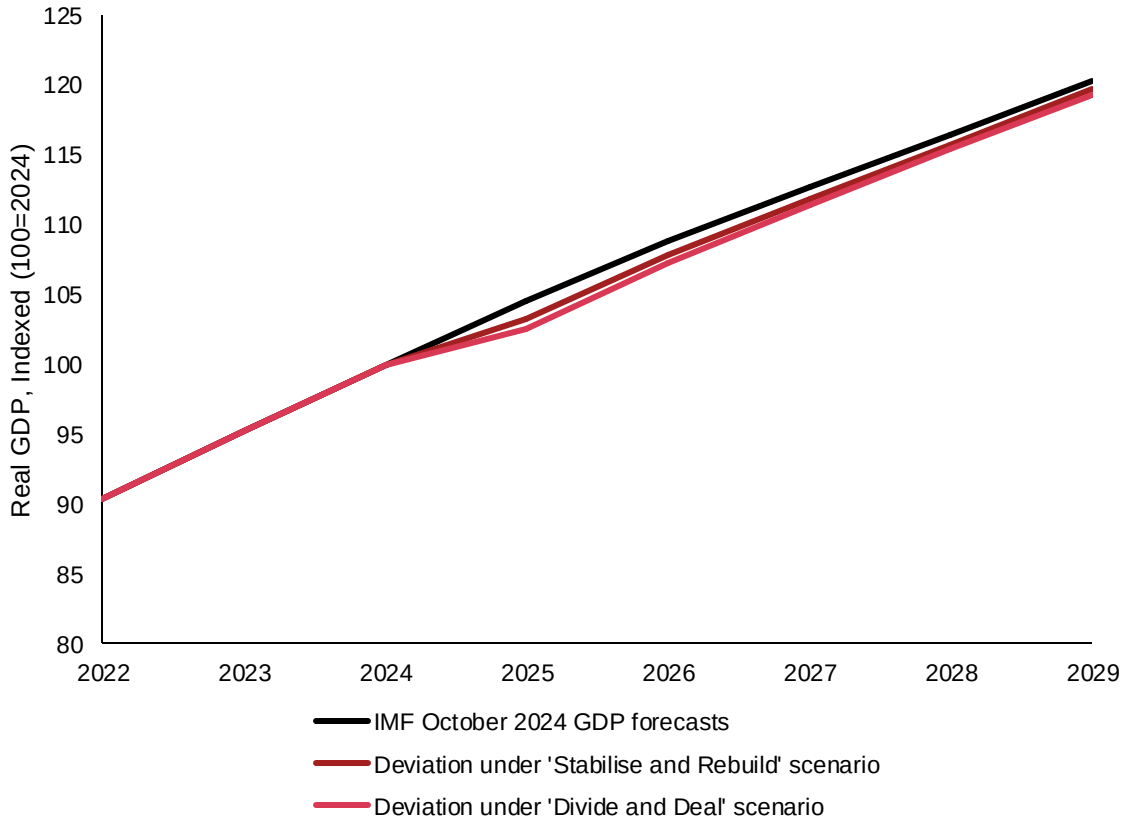
Note(s): (1) Long-term is defined as total changes over the 5 periods post shock, (2) Outputs reflect the combined impact of tariffs and shocks, (3) Shocks are described in more detail in Annex B3, (4) Please refer to Annexes B5 and B6 for scenario parameters
Source(s): PwC analysis.

The US and China are expected to see some of the most significant negative deviations from baseline growth, with weaker US demand spilling into reduced global trade volumes

US real GDP (Deviation from IMF October 2024 forecasts by scenario, 2024 = 100)[3]



China real GDP (Deviation from IMF October 2024 forecasts by scenario, 2024 = 100)[3]



Note(s): (1) Outputs reflect the combined impact of tariffs and shocks, (2) Shocks are described in more detail in Annex B3, (3) Please refer to Annexes B5 and B6 for scenario parameters
Source(s): PwC analysis.

The results of our modelling can be partly explained by effects present across both deal-oriented scenarios, including a fall in real wages and reallocation of investment

Short-term

Money flowing out of the US

A modelled increase in US risk premium causes investment to flow out of the US and towards the EU and Asia. This harms US growth but helps offset some negative trade impacts for EU and Asia, particularly in capital-intensive sectors.

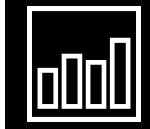
Falling US imports

Our modelling suggests that total US imports will fall. This hurts countries with large export flows to the US, as trade may be diverted to other markets where 'flooding' may lower the price received.

Dampening real wages

Under the 'Divide and Deal' scenario, China is forecast to experience the sharpest short-term negative deviation in real wages from the baseline. This will likely dampen consumption, resulting in a spillover effect on global aggregate demand - contributing to a net drag on global GDP.

Long-term



Falling US exports

In these scenarios, our modelling projects a long-term decrease in US imports from China (>33%), leading to price increases of US goods and, consequentially, causing US global exports to fall by over 5%.

Falling real wages

There is a reduction in long-term real wages in some major economies. This generates a reduction in demand for certain goods, contributing towards a net negative global GDP impact.

Reallocation of trading flows

Several countries replace previous trade flows with the US and China with increased trade with European economies. This helps to lift economic growth in Europe above the baseline, but leaves the US and China with lower growth.

Source(s): PwC analysis.

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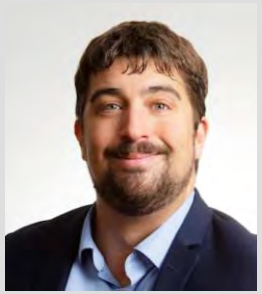

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Annex A

Section 1 – Early insight

A.1 Sector and goods categorisations

Type of categorisation	Goods/sectors	Additional information
A. ONS Industries (SIC), 1-digit level	Sectors	ONS Standard Industrial Classification (SIC) used in classifying business establishments and other statistical units by the type of economic activity in which they are engaged. Includes 20 industries.
B. ONS SIC, 2-digit level	Sectors	The ONS SIC at the 2-digit level provides a more detailed breakdown of the broader industry categories defined at the 1-digit level.
C. ONS Commodities (SITC 2-digit level)	Goods	Standard International Trade Classification (SITC) at a 2-digit level used in reporting trade data.
D. GTAP	Sectors	Standardised system of sectors used in the Global Trade Analysis Project (GTAP) databases for modelling global economic interactions, especially in Computable General Equilibrium (CGE) models.
E. Grouped GTAP	Sectors	For the purposes of PwC analysis, the 65 Global Trade Analysis Project (GTAP) categories have been grouped into 31 categories.
F. Custom S&P	Goods	Custom grouping of Harmonised System (HS) commodities created by S&P.

Annex B

Section 2 – Economic impacts

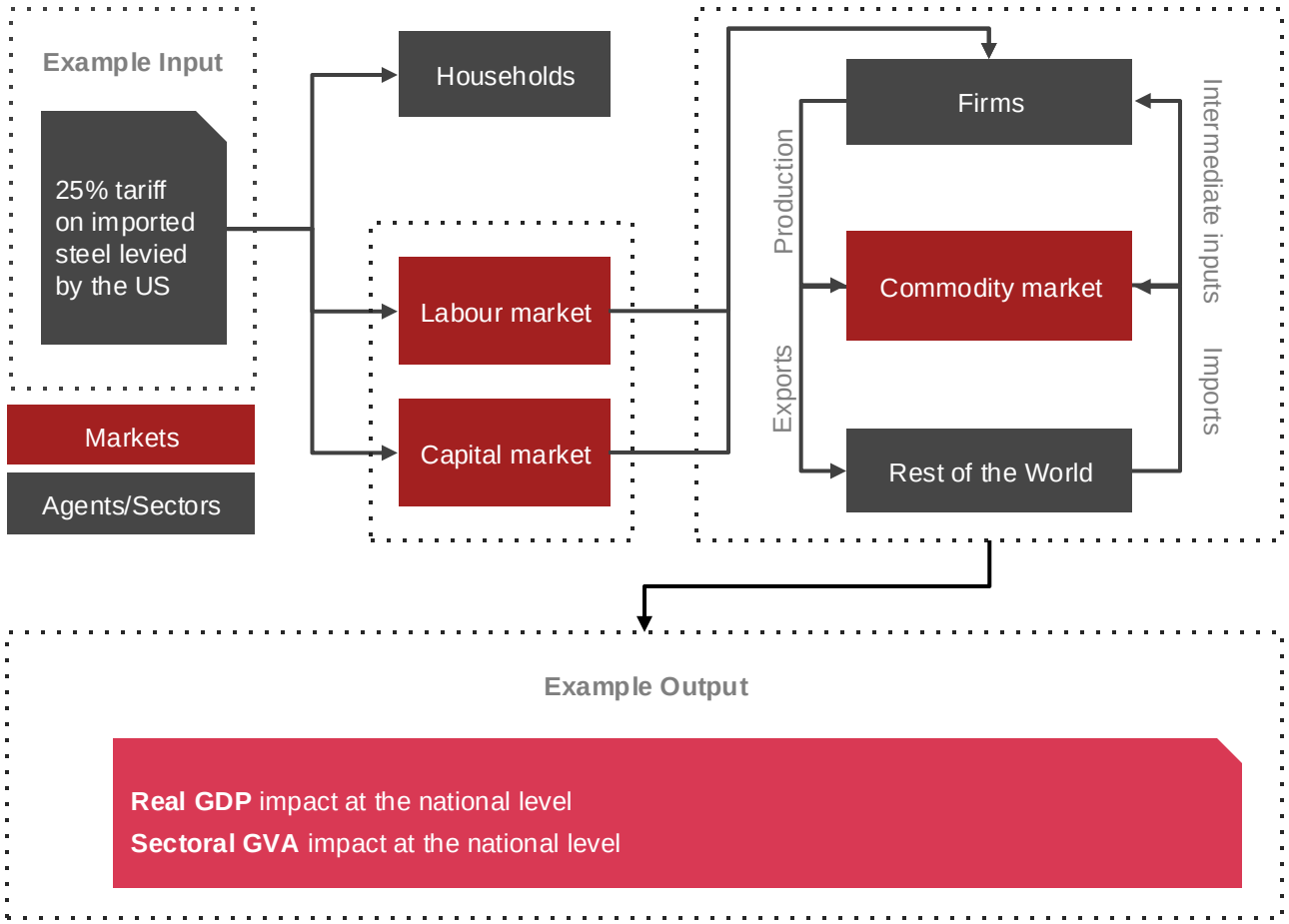
B.1 Approach to economic modelling

Our analysis of the impact of tariffs globally and in the UK, as presented in Section 2 of this report, uses Computable General Equilibrium (CGE) modelling. CGE modelling is widely regarded as the gold standard for analysing how economies respond to changes in policy regulations, technology, or external shocks. It simulates the interactions among various economic agents-including households, firms, government, and international trade-by representing behaviour and constraints through a system of equations.

These models are commonly used to evaluate the effects of regulatory changes, technological shifts, or trade agreements on outcomes such as production, consumption, income distribution, and overall welfare. Due to their flexibility and rigour, CGE models are considered the gold standard in economic modelling, providing valuable insights for both policymakers and researchers seeking to understand complex economic dynamics.

An example of our modelling inputs and outputs are shown below, with the example of a 25% tariff levied by the US on steel imports from other countries. The impact of this tariff is modelled throughout global economies, simulating the response by firms and households through their production and consumption patterns. The model simulates trade flows and produces a feasible output for how the global economy would be impacted by this tariff, providing outputs such as GDP, GVA, and exports.

Computable General Equilibrium (CGE) model



B.2 Inputs to the economic modelling

For the CGE modelling, we use the Global Trade Analysis Project (GTAP) 11 database, which offers comprehensive bilateral trade information, as well as insights into transport and protection linkages. The database covers:

% of world GDP	Countries	Sectors
99.1%	**160 countries/ regions**	**65 sectors**

GTAP's comprehensive coverage effectively accounts for trade flows between countries and sectors, as well as the interdependencies between sectors and economies, making it an ideal choice for our analysis.

To make the modelling exercise as effective as possible for the requirements of modelling trade flows between countries and sectors, with a focus on modelling particular economies in detail, we have aggregated countries and sectors in the GTAP 11 database to a set of 22 countries and regions, and 31 sectors.

B.3 Additional channels of impact

In addition to the tariff rates we have modelled in the 'Stabilise and Rebuild' scenario, we have also introduced additional channels to simulate other impacts commonly found in the economic literature surrounding trade shocks. These are:

US risk premium

The US risk premium, which is calculated as the expected market return over a risk-free asset, increased in March-April 2025 in response to the economic uncertainty caused by the Trump administration's tariff policies. We have proxied this increase in risk premium by reviewing the spread of US BAA corporate bonds to US 10-year Treasury Securities in March and April 2025. This risk premium increased from 165 basis points in March to 190 basis points in April, an increase of 15%.

We have simulated this channel by applying a 5% increase in the US risk premium throughout the entire time horizon of the model. We have opted to use a 5% shock as a result of the tariffs imposed by the US as the tariff rates are considerably lower than those imposed on Liberation Day.

Input efficiency

Input efficiency measures how well intermediate inputs are transformed into outputs, which is used as a proxy for the extra costs business face when switching suppliers, using lower quality intermediate goods, and transitioning to new supply chains.

In the first period following tariffs being levied, we reduce input efficiency by 2% in the US and 1% for the rest of the world, with the size of the shock halving each period to simulate search costs reducing and supply chains becoming more efficient as companies acclimatise to the new environment.

We have assumed a relatively small shock, reflecting the likely responses of businesses globally as some look to change supply chains, while others will carry on with existing suppliers. By the end of our modelling time horizon, the shock to input efficiency will have reverted close to 0% (i.e. impact of the shock is no longer felt by businesses).

Investment efficiency

Investment efficiency relates to the goods necessary for companies to purchase new investments. A decrease in investment efficiency will increase the amount of inputs required to convert money into capital goods. As this shock affects the level of investment and therefore the long-term level of capital it has a long-term impact, leaving affected countries and industries with long-lasting reductions in their capital stock.

In the first period following tariffs being levied, we reduce investment efficiency by 2% in the US and 1% in the rest of the world, with the size of the shock halving each year to simulate uncertainties within the economy reducing over time. By the end of our modelling time horizon, the shock to investment efficiency will have reverted close to 0% (i.e. impact of the shock is no longer felt by businesses).

These additional shocks serve to model the effects of increased economic uncertainty as a result of additional tariffs levied by the US administration. While these channels add additional layers of impact to our analysis, there will be other impacts of the tariffs which are not captured in our analysis.

Source(s): (1) US Federal Reserve Economic Data. Available here. (2) When Tariffs Disturb Global Trade, Grossman et al.

B.4 Modelling assumptions

There are several underlying assumptions to the modelling which are fundamental to understanding the outputs:

- CGE models are inherently better suited to small or marginal changes (such as a 1% change in a tax rate or tariff) where the model's assumptions – such as linear approximations or constant elasticities – are more valid. For shocks larger than this, such as additional 25% tariff on automobiles, the model's assumptions may no longer hold.
- By default, the model treats imports of identical products from different countries as perfect substitutes. We have therefore adjusted the elasticity of substitution values for several sectors in the model to reflect a more realistic picture of global trade, whereby an equivalent good from a different country is not a perfect replacement. We have implemented this change for goods sectors and have adjusted the elasticity values from infinity to six, with some further elasticity decreases for specific countries and sectors. We note even with these changes, goods still show relatively high elasticity.
- Results are presented as both 'short-term' and 'long-term'. In this context short term refers to impacts seen in the period of the shock, i.e. the period when tariffs and additional shocks are applied in the model. Long-term refers to the total impacts over the five periods post the addition of tariffs and additional shocks.
- To calculate UK sectoral impacts across the UK's 12 regions, we apportion GVA based on the share of sectoral employment. We use an average of 2024 quarterly regional employment by ONS Standard Industrial Classification (SIC) industry classification to provide us with the regional weightings for each industry.

Source(s): (1) PwC analysis. (2) ONS Workforce jobs by region and industry, available here.

B.5 What we assume in the 'Stabilise and Rebuild' scenario

We assume the following tariffs are levied by the US on other economies. The only country assumed to respond in-kind with retaliatory tariffs is China.

Variable	Value
Country specific tariffs levied by the US	
China (and Hong Kong, SAR)	30% on all goods as agreed between US and China on 12th May* (with retaliation at 10% from China).
Mexico and Canada	USMCA compliance assumed to rise to 80% for both countries in response to tariffs (compliance was between 30-50% for both economies pre-Liberation Day[1,2]). Non-compliant goods are tariffed at 25% baseline rate*.
UK	US-UK trade deal as announced on 8th May: 10% on automobiles, 0% on steel, and 10% reciprocal rate on all other goods*.
EU	10% on all goods*.
Rest of World	10% on all goods*.
Industry specific tariffs levied by the US	
Automobiles	25% for all countries (except the UK).
Steel	25% for all countries (except the UK).
*Exempted goods	No change in tariff rates on pharmaceuticals, oil and gas, electricity, lumber for all countries.
Services	No change.
Additional shocks	
US risk premium	5% increase.
Input efficiency	-2% for US, -1% for RoW (with shock halving each period).
Investment efficiency	-2% for US, -1% for RoW (with shock halving each period).

Note(s): (1) Shocks are described in more detail in Annex B3.
Source(s): (1) BBVA research, April 2025. Available here. (2) Royal Bank of Canada, May 2025. Available here.

B.6 What we assume in the 'Divide and Deal' scenario

We assume the following tariffs are levied by the US on other economies. The only country assumed to respond in-kind with retaliatory tariffs is China.

Variable	Value	Comparison to 'Stabilise and Rebuild'
Country specific tariffs levied by the US		
China (and Hong Kong, SAR)	45% on all goods* (with retaliation at 43% from China).	▲ Increase
Mexico and Canada	USMCA compliance assumed to rise to 60% for both countries in response to tariffs (compliance was between 30-50% for both economies pre-Liberation Day[12]). Non-compliant goods are tariffed at 25% baseline rate*.	▲ Increase
UK	10% on all goods*.	▲ Increase
EU	20% on all goods*.	▲ Increase
Rest of World	Liberation Day tariffs on all goods*.	▲ Increase
Industry specific tariffs levied by the US		
Automobiles	25% for all countries	No change
Steel	25% for all countries	No change
*Exempted goods	No change in tariff rates on pharmaceuticals, oil and gas, electricity, lumber for all countries.	No change
Services	No change	No change
Additional shocks		
US risk premium	10% increase	▲ Increase
Input efficiency	-3% for US, -1.5% for RoW (with shock halving each period)	▲ Increase
Investment efficiency	-3% for US, -1.5% for RoW (with shock halving each period)	▲ Increase

Note(s): (1) Shocks are described in more detail in Annex B3.
Source(s): (1) BBVA research, April 2025. Available here. (2) Royal Bank of Canada, May 2025. Available here.

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