Weekly Brief

April 09, 2025

Navigating a New Trade Reality

The “reciprocal tariffs” announced in the US last week upended eight decades of history—since the modern world-trading system began in 1947. The specifics are well reported elsewhere, but the bottom line is the US raised tariffs to around 23%, equivalent to the tariff rate in 1910, from 2.4% three months ago.

Beyond the magnitude, the distribution was surprising. For example, Israel, which had just eliminated US tariffs, and Australia, with whom the US had a positive trade balance, were still impacted. Companies that had offered major US investments, including Apple and TSMC, will see substantial financial impacts. And, of course, all the tariffs are subject to revision, negotiation, and retaliation, as the back and forth with China over the past few days demonstrates. The uncertainty has only just begun.

This forces every business leader to ask three questions:

What are the overall impacts?

The short-term impacts of these tariffs are broadly understood. Costs will rise and companies will either absorb those costs, decreasing margins, or pass them on, which will affect pricing and demand. In the medium term, tariffs are intended to spur US investment and production. They are less likely to enable true global competitiveness, given the barriers to international competitors and the complexity of supply chains.

There are two compounding issues. First, every investment decision is based on both risk and return. The large uncertainties in the global trading system have substantially increased risks for most companies. This will likely dampen global investment and growth.

Second, prices in some categories are almost certain to rise. In one simple example, it's hard to see how it will be possible to produce children's shoes in the US, likely shifting import duties onto consumers.

Philipp Carlsson-Szlezak, BCG's chief economist, has held a positive view of the US economy, correctly predicting the potential for a soft landing in 2022 when others were much more negative and staying bullish about prospects for 2025. The new tariffs have triggered shifts in his estimates.

In his Center for Macroeconomics newsletter last week, Philipp said that the April 2 tariffs could increase near-term US inflation by an additional 2.7%, bringing overall inflation to near 5% for the year ahead. Consumption growth could sink to near zero, and his base case for US growth will decrease from 1.9% to 0.5%. He raised the odds of recession from a baseline of 18% before the new tariffs to 40%.

The global economic impact, meanwhile, will be surprisingly asymmetric. Philipp's team quantified the likely global fallout in an April 6 report, noting that the US has started a trade battle with everyone—but everyone is engaged in a trade battle with only the US. The resulting asymmetries point to a bigger supply shock for the US (tariffs pushing up inflation and pushing down consumption and GDP growth) than for its trade partners.

What does it mean for my organization?

This is the big question right now, and our Global Advantage practice has a new article to help find answers. These are some of the major considerations:

- **The Stacking Effect.** Many of these new tariffs stack on top of existing ones, creating a cumulative impact stronger than earlier rounds.

- **The Exemptions Question.** There may be some exemptions from tariffs, including for semiconductors, pharmaceuticals, and critical minerals. Those exemptions could come with expiration dates, limiting potential value.
- **Shifts in Competitive Pressure.** The US dollar could get stronger and input costs could rise. This would give overseas competitors from China, Europe, and elsewhere a unique opportunity to grab global market share.
- **Supply Chain Agility.** If country-specific tariffs and bilateral deals are the norm, then flexibility in sourcing and production becomes a critical strategic asset. The challenge is building resilience without untenable cost.

How can I make the best of this situation?

BCG's trade and geopolitics experts, who wrote the article, put it this way: "Every company, regardless of sector or location, needs to build tariffs and the related uncertainty into its planning and operating model." In other words, core decision making just got a lot more complicated for business leaders.

Some companies have already built geopolitical muscle, developing capabilities to anticipate and respond to policy shifts. They've set up teams to map out tariff impacts, consider pricing strategies, and work with suppliers to share cost burdens. They should be better positioned to confront the current headwinds.

But even the leaders of those companies are now asking harder, longer-term questions. All businesses need to understand how sustained high tariffs could affect their supply chains and manufacturing networks—and prepare in advance as much as possible.

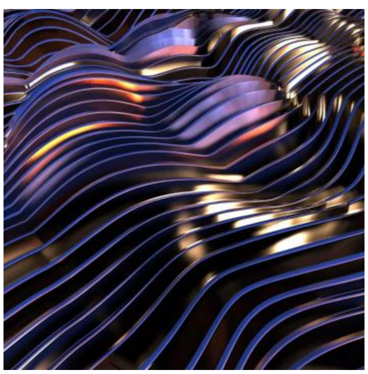
Trade battles and higher uncertainty are not what most of us would have wished for, but that's the world we're in. In some ways, it's not unlike where we were five years ago at the start of the pandemic. We must embed a mindset of resilience grounded in adaptiveness and agility and seek advantage and opportunity amid uncertainty.

The quote taped to my mom's refrigerator seems remarkably apt for business leaders once again: "Do not pray for an easy life; pray to be a strong person."

Until next time,

Rich Lesser
Global Chair

Further Insights



[There's Nowhere to Hide as Tariffs Reshape Global Trade]

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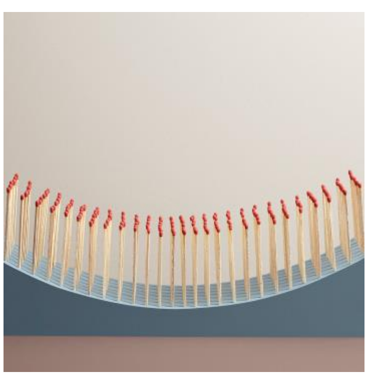
RETHINK TRADE, FAST



[Understanding the Asymmetric Global Impact of America's 360° Trade War]

Learn more about the macroeconomic effects of the Trump Administration's April 2 tariffs.

SEE THE IMPACT NOW

US Auto Tariffs are Here. How Should Automakers Respond?

For automakers, the path ahead will be complex. The time to establish a trade resilient strategy is now.

BUILD TRADE RESILIENCE