Weekly Brief

August 06, 2025

US Trade Dynamics: The New Abnormal

If you had described today's trade situation to me one year ago, it would have seemed so unlikely.

Even though US tariffs have increased more than sixfold to levels not seen since the 1930s, the dollar is trading less than 5% below the rate of a year ago and global stock markets are up double digits—more than 15% in dollar terms. The economic headlines are mixed, but the "recession by summer" predictions of some economists did not play out.

The macro story may seem calm, but it has become a very different world very quickly for business leaders. The implications are enormous as they navigate the complex and uncertain years ahead.

Here are some top-of-mind points to consider:

- **We need to get used to a new baseline.** In the recent past, global trade operated under norms that generally favored tariff stability, with the US often maintaining lower average tariffs than many of its trading partners. Today, however, rising US tariffs are being met with little or no retaliation. This unexpected dynamic reflects both the centrality of the US economy and the caution with which other countries are approaching trade confrontation.
- **We're nowhere near done.** There are countries that have yet to reach agreements. Many may settle in the 15% to 20% range, but others could well land much higher. Even those

with tentative agreements have details to work through. Overlaying this country patchwork are tariffs specific to products and sectors. Some, such as for the pharmaceutical and semiconductor sectors, are still in flux and could head much higher. Short-term uncertainty remains high.

- **What's settled can become unsettled.** US tariffs are no longer viewed as distinct from the world's macroeconomic and political volatility. That means that global economic and political uncertainties, tensions, and disputes can once again put tariffs back on the table. What feels today like a reasonably stable outcome could be rewritten in the years ahead.
- **Building global supply chains just got much more challenging.** The economic logic of recent decades has been based on a near seamless flow of goods among countries through often complex global supply chains. New, stiff rules about trans-shipment, for example, could render these supply chains riskier, costlier, and much less stable.
- **There's probably no going back.** Tariffs will now constitute a meaningful source of revenue that will be hard for the US to turn away from, given the size of federal deficits. Anything comparable would require major spending cuts or tax increases. These tariffs will be sticky regardless of how political leadership evolves. And other countries, living with high tariff imbalances today, may be less willing to accept them in the years ahead.

I don't think it's an exaggeration to say this is a new world order for businesses. What does that mean for leaders?

First and foremost, building your organization's trade muscle has gone from a short-term exercise—allowing you to flex during a period of volatility—to a fundamental, long-term requirement. You must closely track developments while monitoring compliance and cost on an ongoing basis. This may cause adjustments to supply chains and require shifts in pricing and market access strategy, as well as enhancements to data, tools, and capabilities.

You'll have to factor geopolitical risk scenarios even more into your business strategy. The dramatically increased complexity of tariff levels and rules will encourage many global businesses to adopt AI tools that can enhance the capabilities of their tariff command centers.

The economic implications are beginning to be more apparent and so far are better than expected by most. But the full impact of tariffs, particularly through the inflationary channel, has not played out yet. A slower-growing economy leaves it more vulnerable to recession. Even so, at BCG we don’t see that scenario as the baseline projection.

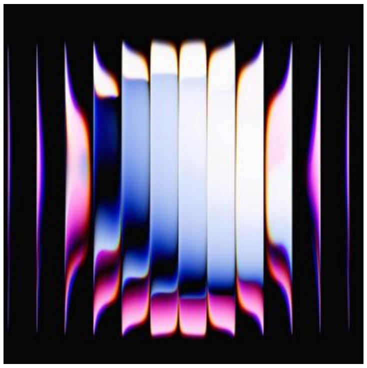
It would be shortsighted to think this is the last act in the trade drama. New trading dynamics distinct from the US may emerge, and there will likely be a heightened focus among some economies to increase their independence. The geopolitical and economic consequences of these changes will take years to unfold.

Business leaders have a ton of work to do. These are fundamental shifts with implications for product flows, production sources, supply chains, pricing, and competitive dynamics. By approaching this environment with flexibility, foresight, and proactive engagement, companies can find new pathways to create durable advantage.

Until next time,

Rich Lesser
Global Chair

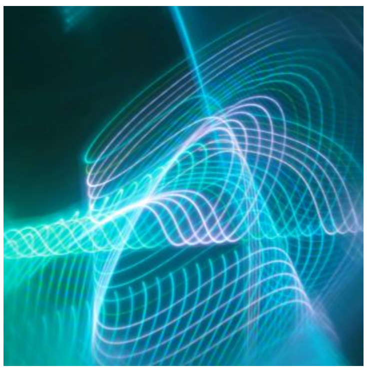
Further Insights



The US Tariff Patchwork Takes Shape

The new landscape is much more complex and unclear, but global companies now have directional information about likely economic impacts.

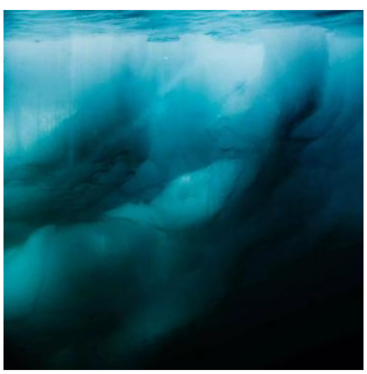
NAVIGATE NEW TARIFFS



The EU-US Trade Agreement: Some Clarity and Ongoing Uncertainty

As is often the case, there's a lot of room for differing interpretations and even disagreement.

RESPOND TO THE SHIFT



Tariffs Are Only the Tip of the Trade Iceberg

Other trade measures often carry far greater impact—including the possibility of closing off entire markets.

SEE THE FULL PICTURE
