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Geopolitics Practice

Tariffs and global trade: The economic impact on business

The recent wave of tariffs and other trade controls has created radical uncertainty for businesses. Here's how decision-makers can best position their companies to thrive in the evolving landscape.

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Since the United States' announcement of reciprocal tariffs on April 2, 2025, financial markets around the world have seen heightened volatility, raising concerns about the impact on the global economy. The combined tariffs enacted by the US government since that date have rapidly raised the country's weighted-average tariff rate to its highest level in the past 100 years, from approximately 2 percent at the start of 2025 to more than 20 percent as of April 11, 2025. Other governments' responses have varied, from China imposing 125 percent tariffs on US imports to more than 75 countries offering to negotiate, according to the US administration.[1]

How these measures will evolve is highly uncertain, particularly given the 90-day pause that the US government has placed on most country-specific tariffs. However, the tariffs' impact on business cost structures, business and consumer demand, and companies' relative competitive advantages is bound to be substantial. Business leaders are navigating a multitude of near-term decisions, with some setting up geopolitical nerve centers to coordinate their responses. In this article, we outline three actions that can help businesses make medium- to long-term decisions: analyzing relative positioning, defining strategic posture and actions, and pressure testing decisions in light of current uncertainty.

Analyze relative positioning

As leaders move beyond immediate tactical responses to consider more enduring shifts to their businesses, they should assess how the new tariffs will affect their competitive advantages and growth prospects:

— *Relative competitive advantage.* Tariffs' impact varies widely by country and sector, and every business has a different geography and product mix, operations footprint, and supply chain. This variance makes it necessary for each organization to assess the new tariffs' implications for its relative competitive advantage. Most business leaders are already calculating the cost impact on their operations. The next step is to analyze how the tariffs affect competitors' cost structures and substitute products. This analysis will determine whether a business can sustain its margins—and even accelerate sales—or whether it must retrench. Since some countries have instituted new export controls and other trade restrictions in response to US tariffs, decision-makers should also assess their ability to maintain access to markets and supplies compared with competitors and whether their position might justify expanding production.

— *Demand.* Tariff changes are likely to meaningfully affect business, consumer, and government spending, as well as trade flows. Companies should therefore evaluate how macroeconomic conditions may affect demand for their products. They should also assess the elasticity of that demand if evolving tariffs necessitate price increases. Finally, they should consider whether their key end-customer markets align with growing or shrinking trade corridors.

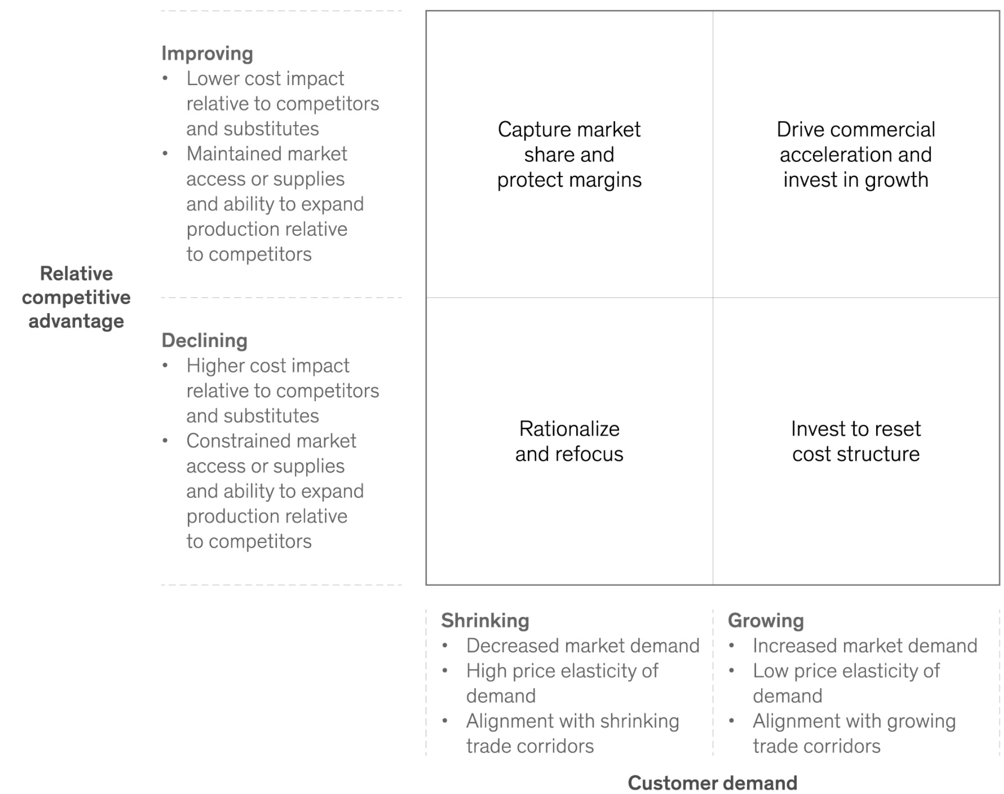
[1] Emiliano Rodríguez Mega et al., "Stocks post gains, but bond market signals investors are anxious," *New York Times*, April 15, 2025; "Secretary Scott Bessent: 'The successful negotiating strategy that POTUS implemented,'" YouTube video by the White House, April 10, 2025.

Analyzing these two dimensions for each major product–geography combination can help business leaders define a set of actions to protect the economics of their businesses and potentially accelerate growth (exhibit).

Exhibit

Companies can assess their position based on how tariffs affect their relative competitive advantage and customer demand.

Company-level tariff impact matrix



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Define strategic posture and actions

Decision-makers should go beyond mitigating the downside of the new trade measures and look for opportunities that the changes may present, as we outlined in a prior article.[2] The combinations of actions that companies might consider in response to the recent tariff changes can be grouped into four strategic postures, which will vary based on a company's specific circumstances:

— *Drive commercial acceleration and invest in growth.* Companies in this category have operational footprints and supply chains that give them a competitive advantage. As such, they are positioned to accelerate commercial actions, including optimizing pricing, expanding their sales force or channel presence, and boosting production in existing facilities. They should simultaneously assess investments with longer time horizons, such as new-product launches, brand enhancement initiatives, acquisitions, and the development of new production facilities.

— *Capture market share and protect margins.* Companies in this category are positioned better than their competitors but have reduced customer demand. They would benefit from focusing on actions that leverage internal capabilities and eschewing major capital investments, at least until demand stabilizes. Measures to consider include adjusting pricing for certain customer segments, implementing loyalty incentives, and expanding sales into channels and customer pools in which the company's position relative to competitors has improved since the new tariffs' implementation.

— *Invest to reset the cost structure.* This strategic posture would apply to companies that find themselves in a diminished competitive position but with steady increased customer demand. Assuming that business leaders believe that their company's competitive position remains viable, they might consider cost reductions to improve margins as they continue to benefit from healthy demand. Their immediate actions could include cost reengineering, design-to-value improvements, supplier renegotiations, targeted supplier reconfiguration, price calibration, and, if within reach, investments in product differentiation. In some cases, corporate leaders should also consider exiting unprofitable business lines and simplifying their operational and product portfolios. In the medium term, companies in this group should determine how to improve their overall market position—for example, by making changes to their supply chains and realigning their manufacturing footprint and talent operations.

— *Rationalize and refocus.* Companies in this category are in the most vulnerable position because their products are highly exposed to tariffs and they are experiencing diminished customer demand. Their leaders' strategic imperative is to reduce that exposure by accelerating cost containment, deferring capital investments in exposed areas, and exploring restructuring options. In some cases, limiting their focus to markets where the company has a margin advantage and defendable market position may be the most pragmatic move. Optimizing both the product–market portfolio and the business portfolio is another important step.

[2] Cindy Levy, Shubham Singhal, and Matt Watters, "A proactive approach to navigating geopolitics is essential to thrive," McKinsey, November 12, 2024.

Pressure test decisions in light of current uncertainty

The strategic postures that companies adopt aren't static determinations. Business leaders need to analyze a range of potential scenarios, some of which might necessitate different strategic moves. To find the best approach, leaders should ask themselves the following questions:

— For which products does my positioning remain stable across a range of scenarios? Which sets of actions are common for these products across most scenarios?

— For major decisions, such as moving a factory, at what threshold of tariff level or other changing trade dynamic does my decision change? Is that break point low enough that the cost of inaction outweighs any downside of action?

The answers can help business leaders determine in which cases they should prepare to act and in which to wait.

Many companies are also wondering whether the uncertainty itself can be bound. We wouldn't recommend predicting the ultimate evolution of the tariff landscape. However, understanding the US administration's priorities can provide some insight into which shifts may be lasting and which transitory. The US government's priority areas include the following:

— *Reinforcing national security.* The United States has imposed trade restrictions on sectors that it deems critical to protecting sensitive and dual-use technologies and to rebuilding the domestic defense industrial base. The administration has cited this consideration in implementing tariffs and trade restrictions on steel and aluminum, with action anticipated on semiconductors.[3] The government has also explicitly identified automotives, basic and fabricated metals, batteries, biomanufacturing, machine tools, microelectronics, pharmaceuticals, shipbuilding, technology products, and transportation equipment as sectors critical to national security.[4]

— *Boosting US manufacturing.* The US government has stated that encouraging companies to move more manufacturing operations to the United States is a key motivation for the recent tariffs.[5] The administration says that bringing back one manufacturing job can lead to "seven to 12 new jobs in other related industries." This in turn would increase American competitiveness through productivity growth and domestic innovation through higher spending on R&D.[6] For example, the administration specifically cites the automotive industry as a focus of these policies.[7]

— *Balancing trade relationships.* The US administration has stated that it's using tariffs to reduce or eliminate the country's large and persistent trade deficits caused by "tariff disparities and nontariff barriers imposed by other countries."[8] To change this imbalance, President Trump has noted that, for example, the European Union will need to buy more

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[3] For more, see Amrith Ramkumar and John McCormick, "Shifting signals on tech tariffs fuel fresh trade uncertainty," *Wall Street Journal*, April 13, 2025; Donald Trump, "Adjusting imports of aluminum into the United States," White House, February 11, 2025; and Donald Trump, "Adjusting imports of steel into the United States," White House, February 10, 2025.
[4] For more, see Andrea Shalal and David Lawder, "Trump uses 2019 national security probe to justify tariffs on auto imports," Reuters, March 26, 2025, and "Fact sheet: President Donald J. Trump declares national emergency to increase our competitive edge, protect our sovereignty, and strengthen our national and economic security," White House, April 2, 2025.
[5] Donald Trump, "Regulating imports with a reciprocal tariff to rectify trade practices that contribute to large and persistent annual United States goods trade deficits," White House, April 2, 2025.
[6] Donald Trump, "Regulating imports with a reciprocal tariff to rectify trade practices that contribute to large and persistent annual United States goods trade deficits," White House, April 2, 2025.
[7] "Fact sheet: President Donald J. Trump declares national emergency to increase our competitive edge, protect our sovereignty, and strengthen our national and economic security," White House, April 2, 2025.
[8] "Fact sheet: President Donald J. Trump declares national emergency to increase our competitive edge, protect our sovereignty, and strengthen our national and economic security," White House, April 2, 2025.

energy from the United States. All the sectors not covered within national security or US manufacturing categories will likely be subject to negotiations to reduce country-specific trade deficit.

During the current trade environment, it's important for business leaders to analyze the competitive position of their businesses and their product-market segments. These analyses can help determine trigger points for specific actions over the short to medium term. With this view, a company's leadership team can make proactive decisions to navigate tariff uncertainty while sustaining their company's resilience and growth.

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