# U.S. Tariffs Impact

## Update Report +1 month

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# 1. Recap: April 2025 Report Predictions vs. Reality

This section revisits the forecasts made in the April 2025 paper, highlighting where the analysis was accurate, where it missed, and where outcomes remain uncertain.

### What We Got Right

- Global market turbulence post-tariffs.
- Initial restraint from China and the EU.
- Early signs of selective trade re-routing and supply chain review.

### What We Missed

- Severity of capital flight from emerging markets.
- Underestimation of U.S. internal political backlash.
- Scale of EU's counter-tariff planning.

### Indeterminate Outcomes

- Long-term investment trends in U.S. manufacturing.
- Trade deal renegotiations remain underway.
- Final shape of global supply chains still in flux.

### A Moment of Irony in Global Trade Policy!

The April 2025 tariffs arrived at a time of active international effort to modernise and digitise trade. Initiatives led by the UNECE and ICC are promoting interoperable digital standards to reduce friction and enhance connectivity—precisely the opposite direction of unilateral tariff escalation. This juxtaposition highlights a growing disconnect: while global institutions strive to simplify and streamline trade, major economies are reintroducing barriers under the banner of sovereignty and reciprocity. This contradiction is not lost on the international business community.

# 2. Introduction and Tariff Overview

On April 2, 2025, the United States launched the most comprehensive trade tariff program in modern history, imposing a 10% blanket levy on most imports and much steeper "reciprocal" tariffs on over 150 countries. Framed as a revival of "Fair and Reciprocal" trade, the measures triggered immediate volatility across global markets and diplomatic shockwaves.

Now, one month on, it is clear the impact has been more severe and less predictable than many sources originally suggested. Market reactions, policy adjustments, and emerging geopolitical recalibrations have outpaced initial expectations—particularly where investor confidence and capital flows are concerned.

This updated paper revisits the scope of the original policy, integrates real-world developments through our structured method statement, and reframes the outlook using a revised sentiment-adjusted approach.

### Scope and Structure of the Tariffs

The April 2nd tariffs marked a rupture in trade orthodoxy. Nearly all imported goods were subjected to a 10% base duty, with country-specific "reciprocal" tariffs—ranging from 20% to over 50%—layered atop this base. The result: the U.S. import-weighted average tariff rate has jumped to levels last seen before World War I.

Originally, analysts predicted a period of controlled disruption and managed diplomacy. That view now appears overly optimistic. Investment hesitancy, supply chain paralysis, and growing fears of systemic instability are shifting the narrative.

# 3. Updated Scenario Outlook

### Worst-Case Scenario: Economic Fragmentation

In the emerging worst-case trajectory, the April 2 tariffs do not just reshape trade—they erode the foundation of the post-WWII trade order. With early signs of capital outflows, slowing investment, and a fragile U.S. consumer base, policy instability itself may deter the very domestic investment the tariffs are meant to stimulate.

**Consequences could include**: prolonged stagflation, accelerated decoupling, collapse of multilateralism, and a bifurcated global system with U.S. and China-led blocs.

### Best-Case Scenario: Diplomacy and Reshoring

A constructive outcome remains possible, hinging on whether the U.S. can convert disruption into leverage for bilateral deals and if global partners choose negotiation over retaliation. Even this best-case path, however, is more volatile than originally forecast. If sentiment stabilises and diplomacy resumes, a recalibrated global trade system may yet emerge.

# 4. Geopolitical Implications and Alignment Shifts

The April 2025 tariff regime triggered immediate ripples across geopolitical and trade alignments. While formal alliances remain intact, the reorientation of trade and diplomatic strategy is now evident in several regions:

**China** has accelerated yuan-based trade partnerships and export rebates for key sectors, positioning itself as a counterweight to U.S. economic coercion.

**European Union** member states have grown divided in their responses—some urging negotiation, others preparing retaliatory measures within WTO constraints.

**ASEAN countries**, though cautious, are quietly seeking deeper trade ties with both India and China to hedge against sustained U.S. tariff instability.

**Latin America and Africa** have shown interest in developing 'neutral corridors'—non-aligned supply routes less vulnerable to U.S.-China fragmentation.

In parallel, diplomatic language has shifted. There is greater emphasis on 'economic sovereignty', 'strategic diversification', and 'regional resilience'.

If these trends consolidate, the long-term implication may not be the re-shoring of global trade under U.S. leadership—but the rise of a fractured system of overlapping spheres of influence.

## 5. Investment Trends and Capital Flow Signals

Investment is the fulcrum on which the U.S. tariff strategy pivots. As of May 2025, capital flow data presents a mixed picture:

**Domestic Manufacturing**: U.S. investment announcements have increased in sectors such as semiconductors and green infrastructure, but most are medium-to-long term with limited near-term capacity impact.

**FDI into the U.S**: Foreign direct investment has slowed, with many multinationals adopting a wait-and-see posture in response to heightened legal, financial, and supply chain uncertainty.

**Capital Flight from Emerging Markets**: Regions with strong U.S. export exposure—particularly Southeast Asia and parts of Latin America—are seeing outflows as investors reprice risk.

**Global Hedging Behaviour**: Firms are not choosing between U.S. and China; they are pursuing third-party manufacturing hubs (India, Mexico, Eastern Europe).

Investment decisions remain tied to sentiment and perceived stability. If the U.S. demonstrates policy consistency and offers investment incentives, we may yet see an upturn. If not, the policy risks becoming self-defeating—deterring the very flows it needs to succeed.

## 6. Supply Chain Adjustments and Industry Response

Since the April 2025 tariff implementation, supply chains have responded unevenly across sectors. Key developments include:

**Electronics and Consumer Goods**: Significant short-term disruption due to reliance on Asian assembly. U.S. importers are turning to nearshoring partners like Mexico and Vietnam.

**Automotive**: Price pressure is intensifying as tariff costs compound with ongoing component shortages. Some U.S. manufacturers have delayed EV expansion plans.

**Agriculture and Food**: Export markets have tightened in response to reciprocal tariffs. Farm lobbying pressure is increasing, particularly in the Midwest.

**Apparel and Textiles**: Brands are accelerating diversification from China, but logistics costs and onboarding delays are limiting immediate gains.

Overall, the early-stage response favours flexibility and substitution rather than long-term commitments. Larger players are hedging across multiple markets. Smaller firms, however, face rising cost burdens and limited ability to reconfigure quickly.

This adaptive phase may shift to structural change by year-end—depending on tariff duration, diplomatic breakthroughs, or macroeconomic deterioration.

# 7. Recognising Sentiment and Applying Bias

Our analytical process now explicitly integrates social and psychological bias as both a constraint and a usable signal. Earlier projections—ours and others—were shaped by widespread optimism bias in published media and policy circles, assuming institutions would correct or mitigate extreme outcomes. That assumption has been tested. We now interpret sentiment not just as a distortion, but as a leading indicator. When public, political, and investor psychology coalesce around disbelief or hope, our models adjust for the possibility that reality may swing harder in the opposite direction. This shift helps us read early underreactions as warnings, not reassurance, and treat bias as a measurable force within geopolitical and market systems.

**Summary**: No collapse, but no clarity either. Sentiment is drifting toward a "wait, watch, and quietly reposition" posture. The global mood is not yet crisis—but it is unsettled, and increasingly guarded.

# 8. Conclusion and Forward Look

As of May 2025, the impact of the April tariff measures is still unfolding. The short-term disruption has exceeded early expectations, largely due to underestimated market psychology, delayed investment responses, and global recalibration of risk exposure.

While the worst-case scenario of systemic fragmentation is still avoidable, it remains more plausible now than it did at the time of initial publication. The best-case scenario—stable, rebalanced trade through investment and diplomacy—will require careful course correction and credible commitments.

Going forward, we will continue to assess outcomes through our updated analysis method statement, applying bias correction, sentiment tracking, and real-world alignment to validate or adjust our forecasts.

**The next phase of reporting will focus on**:

- Comparative investment response across trade blocs
- Bilateral trade negotiations and their durability
- Cross-border digital trade and non-tariff barriers

This report will serve as a live baseline for monthly updates. As new data emerges, updates will retain this structure: recap, scenario comparison, sectoral review, and alignment with sentiment-informed expectations.

# 9. Appendix Sentiment Snapshot – One Month On

**Overall tone**: Edging from uncertainty to unease.

### Governments

- Cautiously reactive, not yet confrontational. Many are buying time—waiting to see if this is escalation or leverage.
- Diplomatic language is restrained, but contingency planning is active (especially in the EU and ASEAN).
- Some smaller nations express quiet concern that multilateral norms are being sidelined.
- Small 'wins' for UK and India show start of realignment of trade routes and trust.

### Markets

- Volatile but not panicked. The initial shock has been absorbed, but deeper unease is creeping into long-term risk pricing.
- Bond yields suggest rising fear of stagflation.
- Investment flows are tentative; capital is looking for predictability, not alignment.

### Business & Supply Chains

- Pragmatic and defensive. Firms are accelerating hedging and diversification but are reluctant to make irreversible shifts.
- Uncertainty is dragging down capital commitments and new contracts.

### Media and Public Discourse

- Fragmented. U.S. domestic media is polarised (reform vs ruin), while international press leans sceptical, framing the tariffs as risky brinkmanship.
- Public trust in global stability is thinning, especially in trade-dependent economies.