



Thomas Sampson

Alexis Papazoglou

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## How will US tariffs affect the UK economy?

*In this interview with Alexis Papazoglou, Thomas Sampson explains what the US tariffs mean for the UK economy and answers questions on the effects of Brexit on the UK's ability to negotiate the tariffs, as well as on what the UK Government can do to ease the effect of the tariffs. This conversation took place on Wednesday April 9, hours before Donald Trump temporarily paused all tariffs above 10 per cent, with the exception of China.*

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*You've worked on the effects of Brexit on UK trade and the UK economy more broadly. One of the tropes of the current discussion at the moment is that the UK got away with a lower tariff because of Brexit and that this is finally the Brexit dividend paying off. To what extent are the savings from only having 10 per cent tariffs imposed on the economy rather than 20 per cent in any way comparable with the overall effects of Brexit on the UK economy?*

The US has set a lower tariff on the UK than on the EU. The UK is facing the 10 per cent tariff versus 20 per cent for the EU. And if the UK were still part of the EU, it's safe to assume it would face that higher tariff. So being outside the EU means the UK is now facing a lower tariff on its exports to the US and it's not unreasonable to point to that as a consequence of Brexit. But the more important question is whether the benefits of that lower tariff offset the costs of being outside the EU and here I think it is clear that the trade costs of being outside the EU are much higher than the benefits of facing a lower US tariff.

The Office for Budget Responsibility (OBR) estimates Brexit will reduce UK productivity by 4 per cent in the long run. By contrast, modelling of the US tariffs suggests that the UK of having a lower tariff on its exports to the US is almost certainly less than 1 per cent and probably even smaller. So, the costs of leaving the EU are considerably larger than any benefits the UK obtains from facing a 10 per cent rather than a 20 per cent tariff. [By the time of publication, Trump had paused the EU

tariffs for three months, during which time they would be the same as the UK's at 10 per cent.]

*Are there any negatives as a result of being outside of the EU in terms of how the UK might go about negotiating with the United States. Would there have been a benefit in being part of the EU, even though we would have faced a greater tariff? For example, would it have given the country greater leverage, than the country has on its own at the moment?*

I think that's harder to assess. On the one hand, larger trading blocks have more leverage in negotiations. So far, we don't know if Trump is actually willing to negotiate. He suggested he might be, but that hasn't really happened yet. But if there are to be negotiations with the US, the EU enters those negotiations from a point of greater strength than the UK, because it's a larger market, meaning it has more to offer the US. It's a bigger player in these negotiations.

On the other hand, negotiating on its own rather than as part of a block of 28 countries, gives the UK more flexibility to tailor its offer, both to fit the needs of the UK economy and to target what the US might want from the UK. So when asking whether the UK is in a better position to negotiate alone or as part of the EU, the trade-off is size versus flexibility. Which of those is more important will differ depending on how exactly any negotiations unfold.

*In terms of how any such future negotiations might go, is the UK's current positioning, which is not to enter into a trade war with the US, like China and the EU have done, the rational position for the UK to be taking at the moment?*

I think it's wise for the UK not to retaliate at this point, and there are three reasons for that. The first is that any retaliation is costly for the UK because it would increase import prices. And these costs are likely to dominate any benefits that UK firms receive by being protected from US competition. So to some extent, by retaliating you are shooting yourself in the foot and the UK should avoid doing that. The second reason is that, because the UK only faces the 10 per cent tariff and is a relatively small player, I don't see any immediate need to try and create leverage for future negotiations by retaliating as China and the EU have done. And then the third reason, and to be honest at this point, I think this actually might be the most important one, is that there's still so much uncertainty over where U.S. policy is heading. Consequently, there is a value in waiting to see how things unfold before committing to any policy path, and this option value in waiting argues for not responding immediately and for getting a better a sense of how things might play out before deciding to act.

So for all those three reasons, I think the UK is making the right decision by not immediately committing to a policy response.

*In terms of other measures that the government can take to help, especially the industries that might be hardest hit by the tariffs, what can the state do at this point? Keir Starmer has hinted at potentially nationalising the steel industry, for example. Are measures like that likely to ameliorate the effect of the tariffs?*

It's certainly possible for the government to direct support to particular industries, either through subsidies, other indirect forms of financial support, or in the extreme case through nationalisation. But I would be cautious about going down that route, because any forms of subsidy or nationalisation is likely to come at a cost to taxpayers. So there is a trade-off that exists between the benefits to the industry itself and the costs to the taxpayer.

What is needed is a careful cost-benefit analysis of the consequences of supporting individual industries. Benefits could arise from protecting jobs, safeguarding supply chains in critical industries, or potentially national security considerations in the steel industry in particular. There may be specific cases where it makes sense for the government to provide additional support, but I don't think it would make sense to provide blanket support to those industries that are hit by the tariffs.

*Aside from the way the UK economy is affected by the tariffs imposed on the UK, how might the tariffs imposed on other countries by the US affect the UK economy?*

I think the main channel through which they potentially will affect the UK is the possibility that exports, which were previously destined for the US, will be diverted towards other countries, like the UK. Many of the big exporting Asian economies like China, but also Vietnam, Bangladesh, and Cambodia are facing very high US tariffs. So it's reasonable to expect that part of the production of those countries will be diverted towards the UK and Europe. What effect would that have on the UK economy? Well, there's definitely a positive side, which is that it's likely to lower prices for UK consumers. For example, if Bangladeshi textiles can no longer go to the US, those textiles might be sold at a lower price into Europe and the UK.

So there will be a deflationary pressure that comes from that, which I think both household and the Government will welcome. That's the benefit. But, as always in trade, there are both winners and losers. And the losers in this case would be UK firms and UK industries that compete with these diverted exports. Which again comes back to the question we've just been talking about: are there particular industries that the government wants to protect from increased imports? If so, the Trade Remedies Authority may be called into action to impose anti-dumping or safeguarding tariffs on this diverted trade, which would further increase trade barriers.

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Alexis Papazoglou is managing editor of the British Politics and Policy blog. He was previously the senior editor for the online magazine of the Institute of Art and Ideas. Prior to that he was a philosophy lecturer at Royal Holloway and Cambridge University. He has written on the intersection of current affairs and philosophy for The Guardian, The New Republic, The Atlantic, and WIRED among other publications. He was the producer and host of the podcast The Philosopher & The News from 2021 to 2023.

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