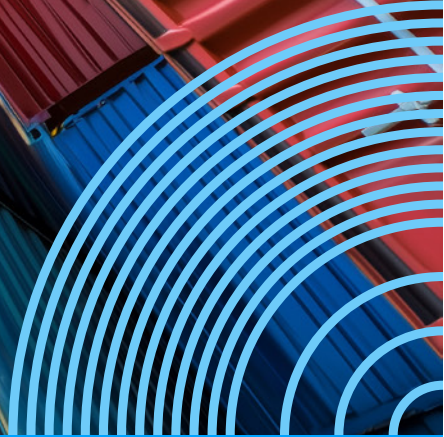


CarltonOne™



Global Tariff Impact

Adapting to Conflict and Economic Shifts • April 2025

CARLTONONE.COM



Why tariffs matter

As a global business, serving over 14m members across 187 countries, **CarltonOne** is acutely tuned to the intricacies and consequence of international trade and tariffs.

One of our core competitive advantages is local reward sourcing and fulfillment. Our business is founded on the belief that we can serve members better, and our clients more effectively and affordably, if we avoid cross-border shipping. Our experienced Procurement team works daily with in-country suppliers to source and ship rewards directly to members. This enables faster delivery, no surprise customs duties or fees, full local warranty and voltage support and regional tax compliance.

While this local, on-the-ground advantage helps our clients and partners avoid onerous cross-border headaches, it doesn't offset the impact of international trade tariffs. These tariffs can directly affect reward costs as the cost of manufacturing, raw materials and parts prices rise.

The recent outbreak of new and increased tariffs from the US government has triggered reciprocal threats from the desks of many Foreign Trade departments. This escalation will create supply chain uncertainty for much of this year.

In this report we've asked our Procurement team to provide their assessment of the current situation in their respective regions, as of March 2025, to help provide a sense of how Washington's protectionist sabre-rattling is affecting markets globally.

Regional Impact Analysis

The impact of global tariffs varies significantly across regions, with unique economic, political, and industry-specific challenges emerging in each.

North America faces increasing costs in key sectors, while Latin America navigates shifting trade partnerships. In Asia-Pacific, countries are adapting to both risk and opportunity as supply chains evolve. Meanwhile, Europe, the Middle East, and Africa contend with inflation, energy concerns, and geopolitical instability. This section provides a detailed analysis of how these regions are being shaped by recent tariff changes and their broader economic implications.



North America

United States:

The U.S. has seen minimal impact on its prepaid or gift card business due to tariffs. However, the retail and restaurant sectors face challenges in expanding into Canada as Canadians increasingly prefer to shop locally. The U.S. is also expected to lose billions in tourism revenue as international tourists cancel or decline to book trips.

Supplier Feedback:

- Some suppliers are stockpiling goods in anticipation of potential tariffs.
- There is uncertainty about when negotiations will lead to compromises.
- Suppliers plan to adapt as situations evolve, with some considering absorbing part of the tariff increases.
- The election year has added to the uncertainty, with expectations of a tough year ahead.

Overarching Impacts:

- Canada, Mexico, and China account for 40% of U.S. trade, making tariffs on these regions significant.
- Lower and middle-income households will bear the brunt of the tariffs, as they spend a larger portion of their income on essential goods.
- The U.S. GDP growth forecast has dropped from 2-4% to -3%, indicating a sharp economic downturn.
- Tariffs have revealed dependencies on Canadian imports, forcing Americans to absorb costs and pass them on to consumers.
- The manufacturing sector has stagnated, with no major orders or new production lines, and layoffs instead of hiring sprees.





Canada:

Canadian suppliers face difficulties planning for the future due to the uncertainty of tariffs. There is a strong 'Buy Canadian' sentiment, and manufacturers are looking for alternatives to U.S. products.

Supplier Feedback:

- It is difficult to plan for the future when substantial tariffs are threatened, imposed, and then walked back or delayed.
- Many Canadians find the U.S. government's brash messaging and tactics upsetting, creating a sense of national pride and a strong 'Buy Canadian' sentiment.
- Manufacturers in Canada are exploring options from 'anywhere but America.'

Overarching Impacts:

- Persistent tariffs could push Canada into a recession, potentially wiping out growth for up to three years.
- The automotive industry faces significant risks, with potential closures and layoffs if tariffs are imposed.
- Cross-border trade disruptions create uncertainty, making long-term investments challenging.
- There is speculation that U.S. policies may encourage Canadian companies to relocate to the U.S.
- Removing interprovincial trade barriers in Canada may help buffer the economy, but the impact will be limited and take time to be felt.

Latin America (LATAM)

Our vendors in Peru, Ecuador, Colombia and Mexico have reported that their operations are currently running smoothly.

Despite the economic threats from the US. Supply chain networks with other suppliers remain unaffected, and no short-term disruptions or price increases are anticipated. As many of these country suppliers source from China rather than the U.S., at this time, the upcoming tariffs are not expected to significantly impact fulfillment.

While no supplier is exempt from potential future tariff changes, they will provide updates if any developments arise throughout the year. In Mexico, pricing fluctuations may occur due to import costs, which are influenced by the U.S. dollar exchange rate.

In Brazil, the potential imposition of 25% tariffs by the U.S. on steel and aluminum could affect the Brazil supply chain. These tariffs may lead to higher reward production costs, raw material shortages, and longer production times. Our local team will carefully monitor the situation for any evolving impact on costs or SLAs.



Asia-Pacific (APAC)

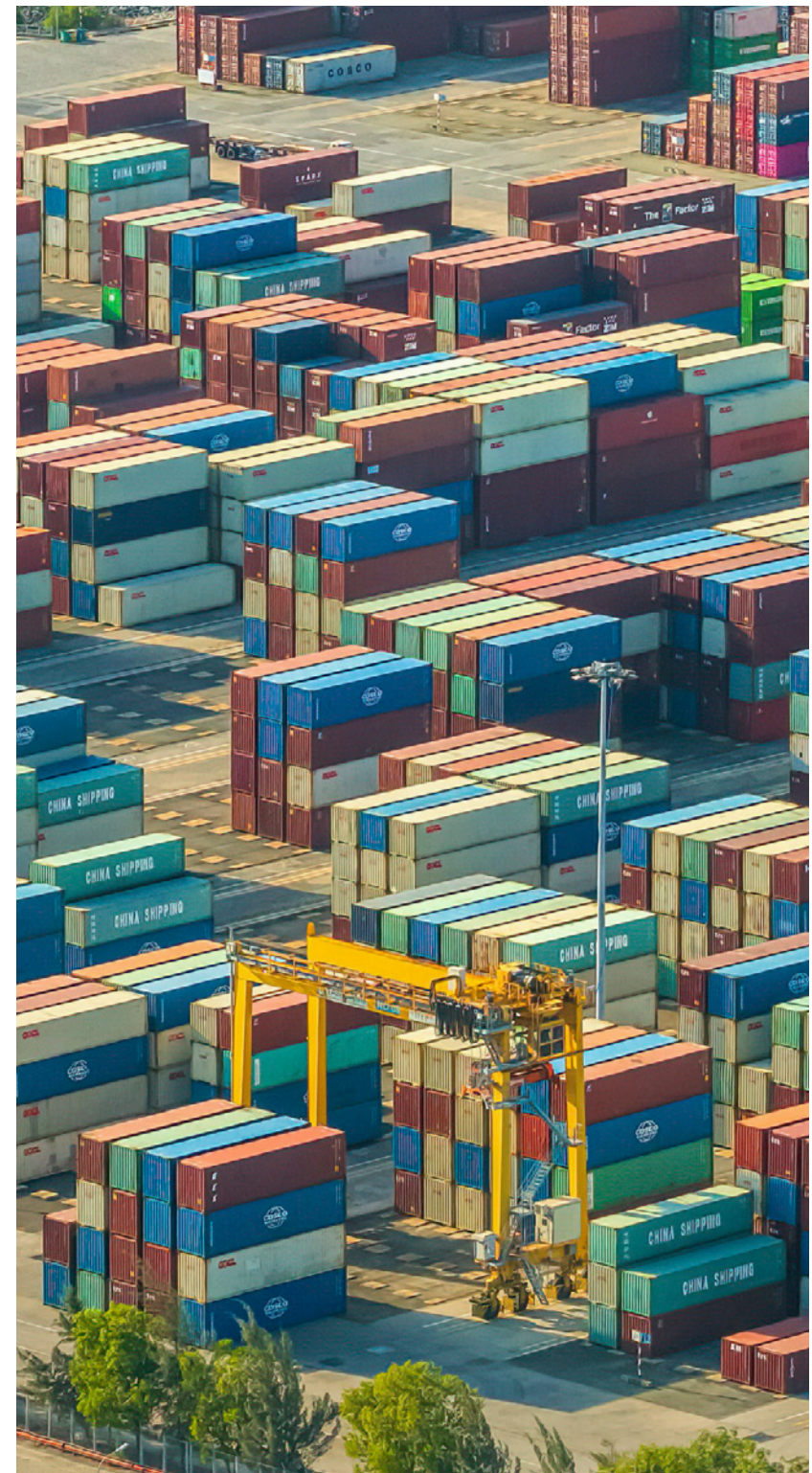
Southeast Asia (SEA):

Countries with large trade surpluses with the U.S., such as Vietnam, Thailand, Malaysia, and Indonesia, face short-term challenges due to tariffs.

However, there is long-term optimism for a manufacturing boom and diversification of trade networks. During the previous trade war (2017-2020), SEA countries experienced a surge in manufacturing as American companies relocated their factories from China to SEA. This trend is expected to continue, with both American and Chinese companies likely to increase trade and investment within the region. Countries in SEA are also seeking to diversify their trade networks, given the unreliability of the U.S. as a trade partner.

Vietnam:

Vietnam's trade relationship with the U.S. is significant, with the country being a major exporter to the U.S. In 2024, bilateral trade reached nearly US\$150 billion, with Vietnam exporting \$137 billion to the U.S., up 19% from 2023. The government is encouraging local businesses to diversify export markets, improve product quality, and meet technical, labor, and environmental standards to mitigate the impact of tariffs. Vietnam is also looking to purchase more U.S. goods and fast-track Starlink technology to avoid tariffs. The country remains optimistic about its economic outlook, supported by strong trade relationships and proactive government strategies.





Thailand:

Thailand's economy is projected to grow by 2.8% in 2025, driven by tourism, investment, and domestic consumption, though exports may slow to 1-2%.

Trade tensions could weaken demand from key markets like Europe, China, and the Middle East. If US tariffs on Thai goods are higher than those on Vietnam, Thai exports may lose competitiveness. An influx of Chinese goods may lower prices but also increase competition in sectors like steel, plastics, and textiles.

Climate risks remain significant, with Thailand ranked the 9th most affected country. Droughts and floods could disrupt agriculture and tourism. Meanwhile, reduced US support for Ukraine may stabilize global grain prices, benefiting Thai farmers. Rising tensions in Taiwan could increase trade costs but may also encourage Taiwanese investment in Thailand.

Growth drivers include rising tourism and improved exports in electronics, steel, and agricultural products like rice and rubber, particularly in the US and CLMV markets. Domestic consumption is set to grow by 2-3%, supported by recovering incomes and debt relief measures.

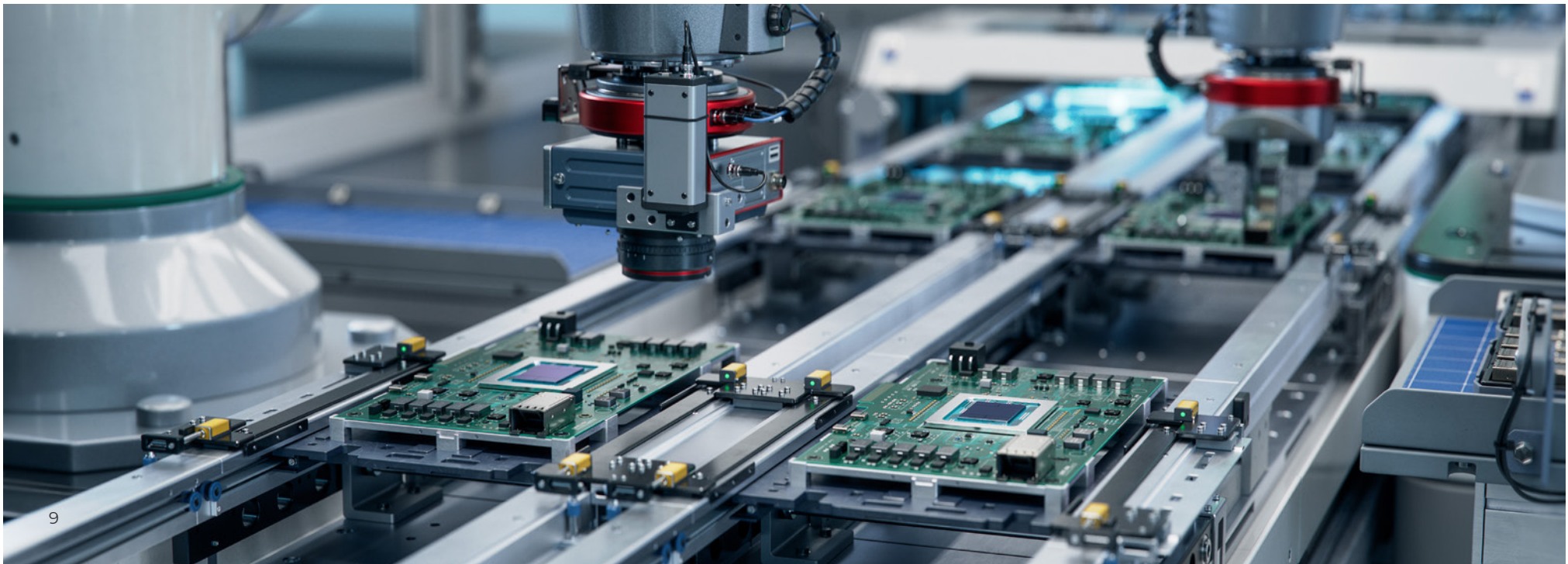
Thailand's SET Index is at a 17-year low, and a 0.25% interest rate cut was introduced to boost the economy. Political uncertainties, including border tensions and regional instability, pose additional risks. Despite challenges, Thailand's diverse growth drivers provide a foundation for resilience in 2025.

Malaysia:

Malaysia's electrical and electronics (E&E) sector, particularly semiconductors, is the most vulnerable to U.S. tariffs, as it accounts for 60% of Malaysia's exports to the U.S. Any trade restrictions could disrupt Malaysia's US\$7.3 billion trade surplus with the U.S. However, Malaysia could also benefit from trade diversions as companies look for alternatives to China. The Malaysian government is proactively strengthening economic ties with the U.S., including a trade and investment mission to engage American stakeholders. They also emphasize Malaysia's vital role in the global semiconductor supply chain. Overall, Malaysia's economic outlook for 2025 is expected to remain positive, supported by strong domestic consumption, investment, and key infrastructure projects. The government remains committed to ensuring Malaysia remains competitive and attractive for trade and investment.

Indonesia:

Indonesia's key industries, such as automotive, electronics, and textiles, may be impacted by U.S. tariff policies. Higher trade barriers could lead to declining production and cost-optimization measures in these sectors. However, resilient industries like renewable energy, healthcare, and e-commerce are expected to remain stable or even grow, driven by strong domestic demand and ongoing innovation. Despite these challenges, Indonesia's exposure to U.S. tariffs remains limited, with 83% of its total trade occurring outside the U.S. The country continues to expand its global trade partnerships, such as with the Middle East, Africa, and Latin America. Overall, Indonesia remains optimistic about its economic outlook, supported by a strong domestic market, strategic trade diversification, and low inflation.



South Korea:

South Korea faces economic uncertainty due to U.S. tariffs, particularly the 25% duties on steel and aluminum, with concerns they may extend to semiconductors, automobiles, and pharmaceuticals.

As a result, South Korea's GDP growth forecast for 2025 has been lowered to around 1.6%. Key industries like semiconductors and autos are adapting by shifting production to the U.S. or restructuring supply chains. Meanwhile, cultural exports like K-pop have seen gains as investors seek stable sectors.

In response, South Korea has actively pursued U.S. tariff exemptions, citing the Korea–U.S. Free Trade Agreement. The government has introduced a \$249–\$253 billion support plan to aid exporters, reduce insurance costs, and stabilize currency risks. Efforts to reduce reliance on the U.S. include expanding trade ties with Japan, the EU, and emerging markets. South Korean companies are also investing in digital transformation and automation to enhance production efficiency and minimize tariff-related disruptions.

While concerns about escalating tariffs persist, South Korea's proactive strategies — from diplomatic efforts to industry-wide adjustments — aim to mitigate risks. By diversifying trade partnerships, supporting key industries, and encouraging innovation, the country is positioning itself for improved economic resilience.





Hong Kong:

Hong Kong faces economic challenges as reduced Sino-U.S. trade volumes indirectly impact its trade and logistics sectors.

While not directly subject to tariffs, Hong Kong's role as a re-export hub leaves it vulnerable to slower Chinese export activity. The logistics and shipping sectors could see reduced growth as a result. Financial services are also affected by market volatility tied to trade uncertainty, potentially weakening IPO activity and capital flows. However, Hong Kong's established legal and financial infrastructure may attract firms seeking arbitration or alternative supply chain strategies.

Tourism and retail, already strained by pandemic disruptions, face additional pressure from economic uncertainty and declining regional demand. To mitigate these risks, the Hong Kong government has introduced SME relief funds, loan guarantees, and tax concessions to support businesses. The Greater Bay Area initiative is being promoted to deepen economic ties with mainland tech and manufacturing hubs, reducing reliance on U.S.-China trade.

Hong Kong has strongly opposed U.S. tariffs, arguing they breach WTO rules and ignore its status as a separate customs territory. The government is preparing a formal WTO complaint in response. Despite geopolitical tensions and rising competition from regional hubs like Singapore, Hong Kong's strengths in finance, logistics, and dispute resolution offer resilience. By aligning with mainland China's digital and green economy initiatives, Hong Kong may unlock new growth opportunities. Balancing these efforts with global connectivity will be key to maintaining stability in the face of ongoing trade tensions.



China:

The 2025 round of Sino-US trade tensions has pressured China's economy, with new U.S. tariffs on electronics, textiles, and furniture expected to reduce exports by 6-8% and potentially slow GDP growth by up to 2.5%.

Supply chain shifts to countries like Vietnam and Mexico have further increased costs for Chinese manufacturers.

Low-end industries like textiles face permanent losses, while advanced manufacturing is seeing growth, with demand for skilled labor projected to rise by 40%. Despite semiconductor restrictions, China's tech sector has advanced, with Yangtze Memory Technologies gaining a 7% NAND flash market share.

Currency volatility and inflation risks have emerged, with a possible 0.8-1.2% increase in the CPI. Meanwhile, export-heavy sectors face declines, while domestic industries like renewable energy gain support.

To offset trade losses, China has expanded partnerships with ASEAN

and Belt and Road countries, reducing reliance on U.S. exports. However, manufacturing job losses could reach 30%, impacting industries like steel and electronics.

Inflation has risen as tariffs on Chinese goods doubled to 20%, increasing costs for exporters and driving up prices for essentials like pork and cooking oil. While domestic production efforts are underway, consumers face higher costs and reduced product choices.

While trade tensions pose immediate risks, China's focus on innovation, domestic growth, and diversified trade partnerships is key to long-term stability.

Japan:

Japan's economy faces significant risks from U.S.-China trade tensions and shifting global supply chains.

With 22% of its exports going to China, reduced demand for Japanese goods like semiconductors could strain Japan's GDP. Additionally, a stronger yen threatens the competitiveness of key export sectors such as automotive, especially if tariffs expand to automakers like Toyota and Honda.

In response, major companies like Sony and Panasonic are relocating production to ASEAN nations or back to Japan to avoid tariffs. SMEs reliant on Chinese suppliers face rising costs, prompting businesses to embrace automation, electric vehicles, and AI to strengthen resilience.

Japan is strategically balancing its alliances, maintaining ties with the U.S. while expanding relationships with India, Australia, and ASEAN. The country cautiously engages with South Korea in areas like semiconductor collaboration to improve supply chain stability.

To reduce reliance on China and the U.S., Japan is actively participating in trade agreements such as CPTPP and RCEP. The government has also introduced a ¥2.2 trillion economic security fund to support domestic semiconductor production and secure critical materials. Additionally, Japan is increasing its defense budget to 2% of GDP by 2027 in response to regional tensions.

Looking ahead, Japan's focus on technology, diversification, and global partnerships will help mitigate economic risks. While geopolitical uncertainties remain, Japan's proactive strategies position it to maintain stability and drive future growth.





Australia:

As of March 2025, Australia's trade landscape faces challenges from U.S. tariffs on key exports such as agriculture, minerals, and manufactured goods.

These tariffs have raised costs for Australian exporters, reducing competitiveness in the U.S. market and causing economic concerns.

In response, Australia has pursued exemptions through diplomatic efforts while strengthening trade ties with Asia and Europe to reduce reliance on the U.S. market. The Australian government continues to advocate for free trade and a rules-based international system to counter rising protectionist measures.

Australia's alignment with the U.S. on security matters, particularly in the Indo-Pacific, adds complexity to trade negotiations. Meanwhile, ongoing disputes with China — including tariffs on Australian goods like barley, wine, and coal — have further strained economic relations. While some disputes have eased, tensions remain.

Despite these challenges, Australia's economy may be less vulnerable than others due to its focus on mineral and agricultural exports rather than heavily tariffed manufactured goods. While global trade tensions may increase input costs, Australia's consumer market has shown little movement toward anti-U.S. sentiment or major shifts in buying behavior.

Europe, Middle East, and Africa (EMEA)

Europe:

Europe faces a period of economic uncertainty, marked by inflation, rising energy costs, and the ongoing transition to digital and green technologies.

These factors are driving up production expenses and the cost of living. For example, a typical weekly grocery bill for a family of four has doubled, and UK mortgage rates have climbed from 2% to between 5-6%.

This shift in spending priorities is reflected in gift card trends — in the UK, 5 of the top 10 gift cards by volume are now for supermarkets, highlighting a focus on essentials over luxury items.

The Ukraine-Russia conflict continues to strain energy supplies and prices, while the UK's post-Brexit landscape adds further economic challenges. Additionally, recent UK tax increases aimed at funding public services and reducing debt have placed added pressure on businesses and consumers, contributing to rising unemployment.

Despite these challenges, potential peace talks between Ukraine and Russia could improve economic stability and bring positive impacts across the region.





Middle East:

The Middle East is facing economic and social challenges influenced by global and regional conflicts.

Tourism has been severely impacted as airlines have suspended flights to Lebanon and Israel, with safety concerns discouraging visitors. This has significantly reduced tourist activity in the region.

Foreign investment has also slowed due to ongoing instability, creating uncertainty that deters investors and limits economic growth.

The cost of living has risen notably, driven by higher global food and energy prices. This

has been particularly challenging for the Middle East, where many countries heavily rely on imported goods.

Shipping and insurance costs have surged as war-risk premiums increase, raising the overall cost of trade and further straining businesses.

Boycotts of Western brands perceived to support Israel have had a substantial economic impact. Major chains like Starbucks and Burger King have seen sales drop sharply, with several store closures across the region. Carrefour has also closed all its branches in Jordan.

The suspension of USAID projects has hit hard, particularly in Jordan, where such funding is crucial for sectors like healthcare and education.

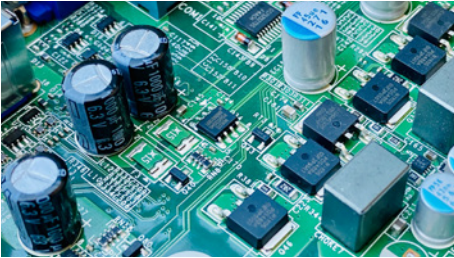
The proposed development of resorts in Gaza has drawn significant criticism, with many viewing it as an attempt to displace Palestinians for commercial purposes.

Conflicts beyond the region, such as the war in Sudan, have also had ripple effects, disrupting trade routes and increasing refugee movements.

The renewed Syrian conflict continues to destabilize the region, with ongoing humanitarian and economic consequences.

Finally, Donald Trump's planned visit to Saudi Arabia, where he is expected to push for \$1 trillion in investments for American companies, may shape future economic developments in the region.

Industry-Specific Impact



Electronics

The semiconductor industry has faced significant pressure, with Malaysia's E&E sector particularly vulnerable. As 60% of Malaysia's exports to the U.S. are tied to this sector, disruptions threaten its US\$7.3 billion trade surplus. However, Malaysian manufacturers are adapting to new sourcing alternatives to mitigate risks.



Automotive

Japanese automakers face risks from potential U.S. tariffs on vehicle exports. Companies like Toyota and Honda are shifting production to Southeast Asia or increasing U.S.-based manufacturing to avoid additional costs.



Agriculture

Tariffs on Chinese agricultural exports, such as soybeans and pork, have pushed China to seek alternative markets in Brazil and ASEAN countries. This diversification strategy has mitigated some economic pressure.



Retail & Consumer Goods

U.S. tariffs have driven up prices for imported electronics and household appliances. Retailers are adjusting by sourcing from non-tariff regions and investing in localized production to meet consumer demand.



Business Strategies for Navigating Tariff Impacts

To mitigate the impact of tariffs, businesses are employing several strategies:

Supply Chain Diversification: Shifting production to countries with fewer trade barriers.

Localizing Manufacturing: Investing in local production to bypass tariffs.

Strengthening Trade Partnerships: Expanding trade alliances to reduce reliance on volatile regions.

Investing in Innovation: Advancing digital solutions and high-tech manufacturing for improved efficiency.

Flexible Pricing Models: Retailers are adjusting product prices and introducing dynamic pricing to mitigate fluctuating costs.

Inventory Planning: Businesses are increasing stock levels of tariff-affected goods to manage supply volatility.

Future Outlook

The global tariff landscape remains unpredictable, with potential escalations in trade disputes and policy shifts.

However, strategic planning, innovation, and diversified partnerships can position businesses to adapt effectively. Here at CarltonOne, our global Procurement team work tirelessly at the local level to negotiate the best reward costs and navigate any tariff uncertainty.

Key considerations for businesses include:

- Monitoring evolving tariff policies and trade agreements
- Building resilience through diversified supplier networks
- Investing in localized production and sustainable sourcing

For organizations navigating these economic disruptions, staying informed and agile is critical to minimizing risks and identifying emerging opportunities.

The global tariff landscape continues to evolve, with businesses facing mounting pressure to adapt. By implementing proactive Procurement strategies and leveraging regional opportunities, companies can ensure resilience in the face of ongoing political instability.





CarltonOne™

Offer great rewards globally

To learn more about how to offer an inspiring rewards program featuring the world's most loved brands, connect with a member of our CarltonOne procurement team.

CONTACT US