How Trump’s Tariffs Are Reshaping Startups and Venture Capital

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President Donald Trump’s 2025 tariff policies — a 25% levy on goods from Canada and Mexico and a 10% duty on Chinese imports — sent shockwaves through the global economy. While framed as a strategy to bolster domestic manufacturing and curb immigration, these measures are creating a ripple effect that startups and venture capitalists are scrambling to navigate.

From disrupted supply chains to frozen IPO pipelines, the stakes are high for innovation-driven sectors. Here’s how the landscape is shifting — and what it means for the future of entrepreneurship and investment.

It’s important to note that recently, a U.S. court ordered the U.S. to lift most tariffs, including 10% and 25% duties on goods from countries like China, Mexico and Canada, within ten days, except for the 25% tariff on steel and aluminum. President Trump has appealed the court’s decision.

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Immediate cost pressures and supply chain chaos

The tariffs hit startups hardest that are reliant on imported materials or hardware. A 25% tax on Mexican automotive

components or Chinese electronics, for example, forces founders to choose between absorbing costs or passing them to consumers – a precarious balance for cash-strapped ventures. Seattle-based Mason, a hardware-software platform, confirmed it would raise customer prices due to tariffs, while agriculture robotics startup Aigen emphasized contingency planning for supply chain disruptions.

Retaliatory measures add fuel to the fire. Mexico's tariffs on U.S. steel and Canada's 25% duty on $30 billion of American goods threaten cross-border ventures. Startups eyeing international expansion now face a "domino effect" of trade barriers, complicating everything from sourcing to market access.

For early-stage companies, this uncertainty stifles growth. As one VC noted, "Hardware is riskier than ever – tariffs just escalated that to the nth degree" 3.

From optimism with venture capital to risk aversion

In early 2025, VC funding appeared robust – U.S. startups raised $91.5 billion in funding across 3,990 deals. This shows an 18.5% increase compared to Q1 2024 and is the highest since Q1 2022. The initial Q1 2025 numbers appear promising. Yet many experts forecast challenging times. The tariffs worsened existing concerns. PitchBook analysts warn of a "cooling effect" on global investments, with VCs retreating from sectors like clean tech and hardware.

IPO plans are crumbling. Fintech giant Klarna and ticket platform StubHub paused public debuts, reflecting broader market anxiety. With exit timelines stretching, VCs are urging portfolio companies to secure funding quickly and conserve capital. Flybridge Capital's Chip Hazard advised founders to "close anything midstream ASAP," underscoring the urgency.

Meanwhile, secondary markets are heating up. Investors once content to “HODL” for IPOs now seek liquidity through private sales — a sign of eroding confidence in traditional exit strategies 3.

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Sector-specific winners and losers

Hardware and Manufacturing: These sectors bear the brunt. Startups dependent on Chinese electronics or Mexican steel face existential risks. Investors like M.G. Siegler predict a VC exodus: “No one wants to touch hardware now”. Yet some adapt: Carbon Robotics, an agtech firm, downplays tariff impacts by prioritizing flexible supply chains.

AI and Defense Tech: Amid the turmoil, AI remains a bright spot. Nearly 58% of Q1 2025 VC dollars flowed into AI startups, driven by hype around generative models and automation. Defense tech also gains traction, as firms already avoiding Chinese suppliers align with tariff-proof strategies.

Consumer Goods and Retail: Startups importing finished products, like apparel or gadgets, confront margin erosion. Those pivoting to domestic suppliers or “tariff engineering” — reclassifying goods to lower-duty categories — may survive, but the pivot requires time and capitathat l many lack.

Survival strategies: Pivots, partnerships and venture debt

Founders are rewriting playbooks. Agriculture startup Aigen emphasizes supply chain diversification, exploring suppliers in Vietnam and India. Others, like Glowforge, tout AI-driven domestic manufacturing as a tariff antidote: “Offshoring is

outdated," CEO Dan Shapiro argues.

Venture debt is surging as equity financing tightens. With IPOs delayed, startups increasingly turn to loans to extend runways – a trend lenders call "unprecedented".

VCs, too, are adapting. Heavyweight firms like Roche and Pfizer are snapping up AI biotechs to offset R&D risks, while others prioritize sectors like logistics or nearshoring.

Innovation amid uncertainty

Despite the gloom, some see opportunity. Crises historically breed innovation – think telehealth post-COVID or fintech after 2008. Early-stage startups, less shackled by legacy costs, could pivot faster to address emerging needs. Breakwater Ventures' Peter Mueller urges founders to "ignore the noise" and focus on core products.

Globally, markets like Africa attract attention. African healthtech startups are thriving, attracting $550 million in funding over the past three years.

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A new era of cautious optimism

Trump's tariffs have undeniably rattled the startup ecosystem, amplifying risks for hardware ventures and testing VC resilience. Yet the chaos also spotlights adaptability. From AI's relentless rise to creative supply chain fixes, innovation persists. As investor Chris DeVore notes, "In that context, the tariff nonsense is mostly just noise."

The road ahead demands agility. Companies that diversify suppliers, leverage venture debt, or target tariff-resilient sectors may not just survive – they could define the next wave of disruption. For VCs, the mandate is clear: balance caution

with conviction, and bet on founders bold enough to turn trade wars into opportunities.

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