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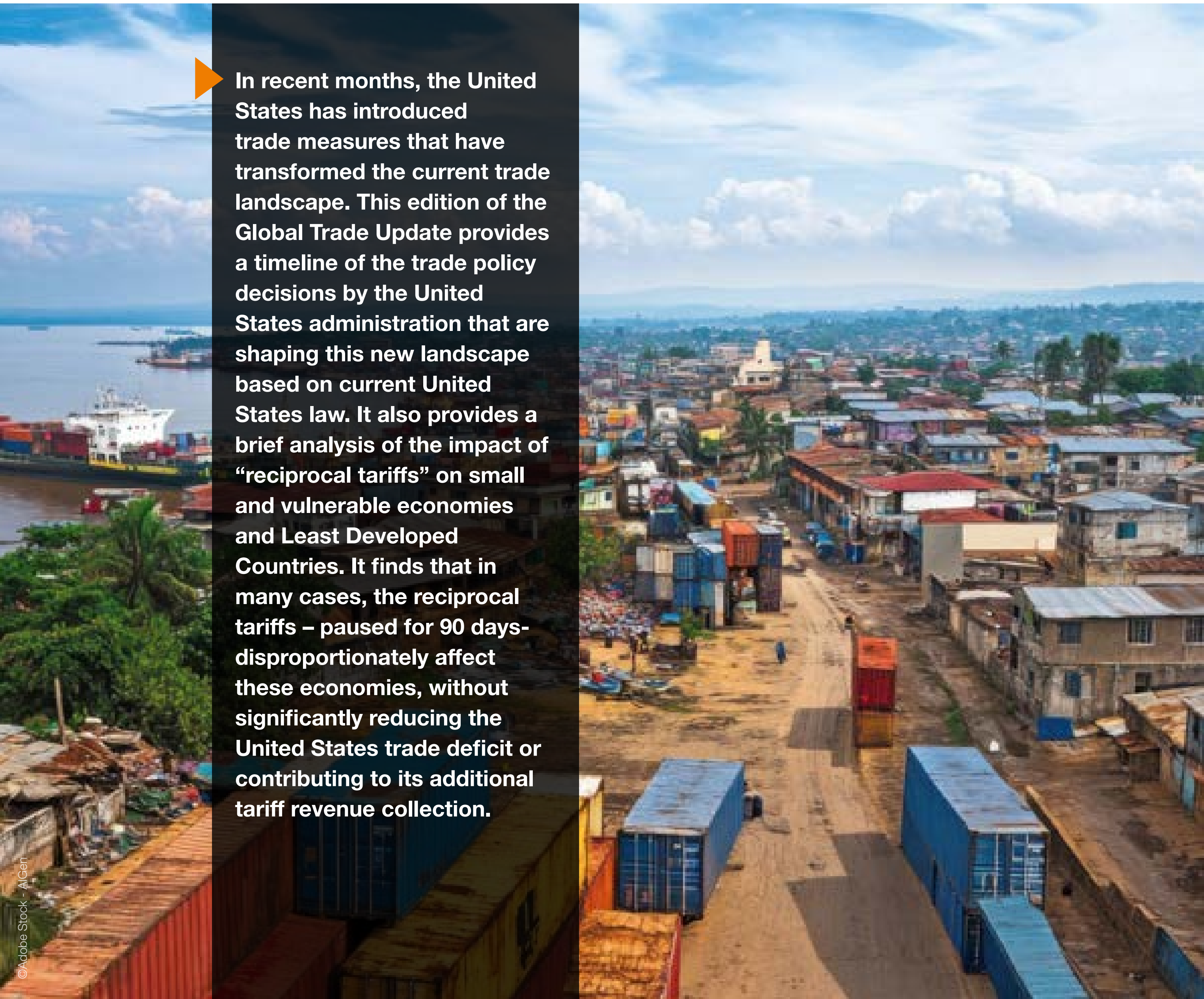
Global trade update plus

Policy Insights

Escalating tariffs: the impact on small and vulnerable economies



In recent months, the United States has introduced trade measures that have transformed the current trade landscape. This edition of the Global Trade Update provides a timeline of the trade policy decisions by the United States administration that are shaping this new landscape based on current United States law. It also provides a brief analysis of the impact of “reciprocal tariffs” on small and vulnerable economies and Least Developed Countries. It finds that in many cases, the reciprocal tariffs – paused for 90 days- disproportionately affect these economies, without significantly reducing the United States trade deficit or contributing to its additional tariff revenue collection.

Reciprocal tariffs - United States legal basis

In recent months the United States Executive has imposed import tariffs at or above 10 per cent to imports from all over the world, justified by existing United States laws. Some of the legislation that has served as a basis is the following:

- The **International Emergency Economic Powers Act** (**IEEPA**) grants the President broad authority to regulate various economic transactions following a declaration of a national emergency. Under IEEPA, the United States Executive can implement tariffs in response to a national economic emergency, in accordance with United States trade law. Based on IEEPA, 10 per cent across-the-board tariffs are in place from 5 April 2025.

- **Section 232** of the Trade Expansion Act of 1962 allows the President to impose tariffs on imports deemed a threat to national security. Tariff levels are determined after a Department of Commerce investigation is completed. This provision has been used to impose 25 per cent tariffs on imports of steel and aluminum into the United States.

- **Section 301** of the Trade Act of 1974 grants the Executive the authority to enforce trade agreements, solve trade conflicts, and increase access to foreign markets for United States goods and services. It is the main legislation the United States uses to impose trade sanctions on countries that “violate trade agreements or engage in unfair trade practices.”

- **Section 604** of the Trade Act of 1974 enables the Executive to impose duties or restrictions on imports. This section has been used to implement “reciprocal tariffs” on trading partners.

Timeline of implementation of new U.S. trade measures

January 20, 2025: **America First Trade Policy**

The United States administration issued its America First Trade Policy (AFTP) which prioritizes U.S.' economic interests, national security, and industrial competitiveness by reducing its trade deficits through higher imports tariffs.

This policy carries costly implications for small and vulnerable economies and Least Developed Countries in terms of their participation in international trade, and access to the United States market.

Following the AFTP, the United States Executive has introduced new tariffs across the board, as well as on specific sectors.

February 13, 2025: **Fair and Reciprocal Plan**

The Presidential Memorandum on "Reciprocal Trade and Tariffs" introduced the "Fair and Reciprocal Plan," which seeks to determine the equivalent of a reciprocal tariff for each trading partner. The Plan outlined a country-specific approach to "reciprocal tariffs," moving away from the Most Favored Nation (MFN) tariff system under the World Trade Organization (WTO).

The Memorandum called for a review of the "non-reciprocal trading relationships" with all United States trading partners. This review includes examining tariffs that United States products face in foreign markets, non-tariff barriers, such as subsidies and exchange rates, among others, and so-called "discriminatory taxes."

March 12, 2025: **worldwide 25 per cent tariffs on steel and aluminum**

The United States administration reinstated Section 232 tariffs on all steel imports and increased the aluminum tariff from 10 to 25 per cent, with no exceptions. Argentina, Australia, Brazil, Canada, Japan, Mexico, the Republic of Korea, the European Union, Ukraine, and the United Kingdom had previously received exemptions to the Section 232 tariff.

Section 232 tariffs of 25 per cent on steel and aluminum will not be subject to additional reciprocal tariffs launched on April 5, 2025.

March 24, 2025: **tariffs related to Venezuelan oil**

Under the IEEPA and the Section 301 of the United States Trade Act of 1974, the Executive announced a 25 per cent tariff on imports from countries that import Venezuelan oil. The United States may impose this 25 per cent tariff on all goods imported from any country that imports Venezuelan oil, either directly or indirectly. These duties will be in addition to any tariffs already imposed under IEEPA, Section 232 of the Trade Expansion of 1962, Section 301 of the Trade Act of 1974, or any other relevant authority.

April 2, 2025: **announcement of reciprocal tariffs worldwide**

Under the IEEPA, the National Emergencies Act, Section 301 and Section 604 both of the Trade Act of 1974, the United States declared a national emergency due to the growing goods trade deficit, identifying the rebalancing of trade flows as a primary policy goal. This rebalancing would be achieved "by imposing an additional ad valorem duty on all imports from all trading partners."

The Executive Order includes a unique exception for articles that contain at least 20 per cent United States content by value, which is defined as: "the value of an article attributable to components produced entirely, or substantially transformed in the United States." If an article contains 20 per cent or more United States content, reciprocal tariffs will only apply to the non-United States content. United States Customs and Border Protection (CBP) will collect information to verify the United States content value of imported articles and if a good is substantially finished in the United States.

The policy does not provide an end date for the tariffs imposed under this Executive Order. Additional tariffs will remain in place until the United States administration decides that "the threat posed by the trade deficit and underlying nonreciprocal treatment has been satisfied, resolved, or mitigated." The United States administration may adjust the tariff rates depending on actions taken by foreign governments, opening the door to bilateral negotiations with trading partners. If the policy is "not effective" including in reducing the "overall trade deficit", the Executive may take additional measures.

April 3, 2025: **automobiles and auto parts**

All automobiles and auto parts (starting May 3, 2025) are subject to 25 per cent duties based on Section 232 (Proclamation 10908 of March 26, 2025 Adjusting Imports of Automobiles and Automobile Parts Into the United States).

For automobiles from Mexico and Canada, the United States content will be duty free, and that value will be deducted from the 25 per cent tariff to be paid. Therefore, autos from Canada and Mexico may face a reduced import duty depending on the content of United States originating parts.

April 5, 2025: **additional 10 per cent reciprocal tariffs become effective**

A 10 per cent additional ad valorem duty to United States imports is applied across the board, except for the products included in Annex II of the April 2, 2025, Executive Order.

April 9, 2025: **additional specific-country tariffs become effective**

Additional import duties on 57 trading partners listed in Annex I of the April 2, 2025, Executive Order (Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits) became effective on April 9, 2025. These additional tariffs ranged from 11 per cent for Cameroon to 50 per cent for Lesotho. President Trump announced a "90-day pause, and a substantially lowered Reciprocal Tariff during this period, of 10 per cent, also effective immediately." This period goes from April 9, 2025 to July 8, 2025.

The "reciprocal tariffs" defined for each one of the 57 trading partners were estimated by dividing the United States trade deficit with each partner, by the total United States imports from such partner, and then dividing the result by two. These tariffs are based on the 2024 US trade in goods deficit. The tariff rates imposed on each United States trading partner do not consider the balance of trade in services.

For Canada and Mexico, imports that comply with the USMCA rules of origin continue to enjoy duty free treatment. For goods that do not comply with USMCA rules of origin, a 25 per cent tariff will apply, in line with IEEPA. If the IEEPA related tariffs are lifted, non-USMCA products from Canada and Mexico will face a 12 per cent reciprocal tariff.

Energy products from Canada will face a 10 per cent import duty.

Annex II introduced a list of products that are exempt from reciprocal tariffs such as minerals, coal, oil, pharmaceuticals, semiconductors, and lumber, although, in the future, sector-specific tariffs may still be applied to them.

Timeline of tariffs applied to United States imports from China

Using the IEEPA, the United States imposed tariffs on China which added to those in place since 2018 under Section 301.

February 4, 2025	March 4, 2025	April 9, 2025	April 9, 2025
Additional 10 per cent tariffs to applied tariff	Additional 10 per cent tariffs	Additional 34 per cent tariffs + 50 per cent tariffs	Determined a tariff rate of 125 per cent

Timeline of United States trade measures based on Section 232 investigations: sectoral investigations

The United States Executive has requested the launching of new Section 232 investigations.

- Timber, Lumber and their derivative products. On March 1, 2025, the President signed an Executive Order directing the U.S. Department of Commerce to investigate the impact of imports of timber, lumber, and their derivative products on national security under Section 232 of the Trade Expansion Act of 1962. Following this order, the Secretary of Commerce initiated an investigation into imports of these products. The report is scheduled for submission on November 2, 2025.
- Copper. On February 25, 2025, the Secretary of Commerce started an investigation on imports of copper. The investigation can last up to 270 days. The report is due on November 22, 2025.
- In the future, new investigations covering pharmaceuticals and semiconductors could be subject to a Section 232 investigation.

Reciprocal Tariffs apply to United States 14 FTAs with 20 countries

The United States has in place 14 free trade agreements (FTA) with 20 countries. Despite preferential duty treatment established in those agreements, United States trading partners now face 10 per cent import duties, except for the products exempted in the April 2, 2025, Executive Order. Likewise, USMCA trading partners - Canada and Mexico- receive different treatment and their exports will not be subject to the 10 per cent tariff general rule.

FTA partner	Tariff as of April 5, 2025	Tariff as of April 9, 2025 Paused for 90 days
Australia	10%	
Bahrain	10%	
Chile	10%	
Colombia	10%	
Costa Rica	10%	
Dominican Republic	10%	
Guatemala	10%	
Honduras	10%	
Israel	10%	17%
Jordan	10%	20%
Morocco	10%	
Nicaragua	10%	19%
Oman	10%	
Panama	10%	
Perú	10%	
El Salvador	10%	
Singapore	10%	
Republic of Korea	10%	26%

Source: The White House. Annex-I.pdf

Unilateral preference schemes: Africa Growth Opportunity Act, AGOA

Beneficiaries of United States unilateral preferences, such as the Africa Growth Opportunity Act (AGOA) are not exempt from reciprocity tariffs, meaning imports from these countries are now subject to additional 10% tariffs across the board, except for the exemptions contained in Annex II. Moreover, until they were paused on 9 April, reciprocal tariffs, often considerably above 10 per cent would also have applied to AGOA beneficiaries.

Excluding the poorest and smallest economies from reciprocal tariffs would have minimal impact on United States trade policy objectives

Small and Least Developed Countries represent a very small share of the United States trade deficit

The contribution to the United States trade deficit from small and Least Developed Countries included in the 57 trading partners listed in Annex I is marginal. For instance, 28 of these trading partners each contribute less than 0.1 per cent of the total United States deficit. However, imposing "reciprocal tariffs" on them will disproportionately affect their ability to export to the U.S. market.

Table 1
Countries in Annex I with a contribution below 0.1 per cent of United States trade deficit

Country	Contribution to United States deficit	Reciprocal tariff (90-day pause)	Country	Contribution to United States deficit	Reciprocal tariff (90-day pause)
Angola	0.095%	32%	North Macedonia	0.009%	33%
Libya	0.072%	31%	Namibia	0.009%	21%
Lao People's Democratic Republic	0.063%	48%	Moldova	0.007%	31%
Madagascar	0.054%	47%	Democratic Republic of the Congo	0.006%	11%
Tunisia	0.050%	28%	Mozambique	0.005%	16%
Serbia	0.048%	38%	Cameroon	0.005%	12%
Myanmar	0.047%	45%	Zambia	0.004%	17%
Côte d'Ivoire	0.035%	21%	Equatorial Guinea	0.003%	13%
Botswana	0.024%	38%	Zimbabwe	0.002%	18%
Fiji	0.019%	32%	Chad	0.002%	13%
Lesotho	0.019%	50%	Malawi	0.001%	18%
Mauritius	0.015%	40%	Syrian Arab Republic	0.001%	41%
Bosnia and Herzegovina	0.010%	36%	Vanuatu	0.001%	23%
Brunei Darussalam	0.009%	24%	Nauru	0.000%	30%

Source: UNCTAD calculations based on United States national statistics.
Note: based on 2024 data.

Some U.S. trading partners concerned by reciprocal tariffs constitute negligible potential export markets for the United States

Some trading partners listed in Annex I are very small and/or economically poor with very low purchasing power. As a result, they offer limited or no export market opportunities for the United States. Trade concessions from these partners would mean little to the United States, while potentially reducing their own revenue collection. For instance, Annex I includes 11 of the 44 trading partners classified by the United Nations as "Least Developed Countries"[1], many of which rely on tariffs for domestic revenue collection.

Table 2
LDCs facing higher reciprocal tariffs offer little export prospect to United States

Country	GDP per capita (US$)	United States exports (US$ million)	As a % of U.S. exports	Country	GDP per capita (US$)	United States exports (US$ million)	As a % of U.S. exports
Madagascar	509	53	0.00%	Myanmar	1,147	77	0.00%
Malawi	598	27	0.00%	Lao People's Democratic Republic	1,958	40	0.00%
Mozambique	623	150	0.01%	Cambodia	2,458	322	0.02%
Democratic Republic of the Congo	655	253	0.01%	Bangladesh	2,464	2,214	0.11%
Chad	913	60	0.00%	Angola	2,464	682	0.03%
Lesotho	916	3	0.00%				

Source: UNCTAD calculations based on United States national statistics.
Note: based on 2024 data.

[1] UN list of least developed countries | UN Trade and Development (UNCTAD).

Most trading partners facing reciprocal tariffs would generate only minimal additional revenue for the United States, even if United States imports levels remain unchanged.

"Reciprocal tariffs" of 10% in place since April 5, 2025, may reduce demand for many imported goods as a result of higher prices. However, even if after the introduction of tariffs, import levels were to remain unchanged at 2024 levels, the additional tariff revenue collected from poorer and smaller economies would be minimal compared to current customs duty revenues.

Table 3
Potential increase in United States revenues from reciprocal tariffs, examples for selected countries

Economy	Potential custom duties (US$ million)	As a percentage of United States total custom duties in 2024	Economy	Potential custom duties (US$ million)	As a percentage of United States total custom duties in 2024
Lao People's Democratic Republic	375	0.45%	Venezuela	41	0.05%
Tunisia	313	0.38%	Moldova	41	0.05%
Serbia	306	0.37%	Namibia	40	0.05%
Myanmar	294	0.35%	Angola	38	0.05%
Madagascar	290	0.35%	Mozambique	26	0.03%
Côte d'Ivoire	174	0.21%	Zambia	24	0.03%
Botswana	154	0.19%	Iraq	18	0.02%
Algeria	126	0.15%	Zimbabwe	12	0.01%
Lesotho	119	0.14%	Cameroon	9	0.01%
Mauritius	93	0.11%	Malawi	7	0.01%
Kazakhstan	84	0.10%	Syrian Arab Republic	4	0.01%
Fiji	81	0.10%	Vanuatu	3	0.00%
Bosnia and Herzegovina	62	0.08%	Democratic Republic of the Congo	2	0.00%
Nigeria	58	0.07%	Nauru	1	0.00%
North Macedonia	57	0.07%	Equatorial Guinea	1	0.00%
Guyana	49	0.06%	Libya	1	0.00%
Brunei Darussalam	47	0.06%	Chad	1	0.00%

Source: UNCTAD calculations based on United States national statistics.
Note: based on 2024 data.

For 36 of the 57 trading partners listed in Annex I, the new specific “reciprocal tariffs” would generate less than 1 per cent of United States current tariff revenues. Moreover, Annex II of the Executive Order includes goods that are excluded from tariffs, and therefore would not produce any revenues for the United States. For instance, the reciprocal tariffs would produce very little revenues from major oil exporters, such as Guyana and Nigeria, as oil is exempted for any additional tariffs under Annex II. Similarly, for several countries that primarily export mineral products—or any other product listed in Annex II— the effect of the reciprocal tariff would be negligible in terms of raising United States revenues. For instance, imposing high reciprocal tariffs on Zambia and the Democratic Republic of the Congo would generate minimal revenue for the United States, while further hindering their potential to diversify exports and add value to their export bases.

Finally, several of the trading partners listed in Annex I export agricultural commodities that are not produced in the United States and for which there are few substitutes. Examples include Madagascar’s vanilla and cocoa from Côte d’Ivoire and Ghana. Increasing tariffs on such goods, while generating some revenue, is likely to result in higher prices for consumers. For instance, in 2024 the United States imported vanilla worth approximately $150 million from Madagascar; cocoa imports from Côte d’Ivoire were close to US$ 800 million, while imports from Ghana were about US$ 200 million.

Looking forward

The United States' policy of "reciprocal tariffs" has imposed new and burdensome market access conditions, disproportionately affecting small, vulnerable economies and Least Developed Countries (LDCs). The current 90-day pause offers an important opportunity to reassess how these countries are treated under this policy framework.

Many African countries, for instance, have benefited from preferential market access through initiatives like the African Growth and Opportunity Act (AGOA), while small economies involved in U.S. free trade agreements contribute only negligibly to the U.S. trade deficit. Imposing tariffs on their exports would not contribute to boost U.S. revenue collection but it would disproportionately harm these vulnerable economies.

This is a critical moment to consider exempting such countries from tariffs that offer little to no advantage for U.S. trade policy while potentially causing serious economic harm abroad.

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