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United States tariff shockwaves: **impacts on the Arab region**


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1. Introduction

The Arab region stands at a pivotal juncture in its economic relations with the United States of America following the 2 April announcement of sweeping tariffs under President Trump's "America First" policy. An additional blanket 10 per cent tariff was imposed on nearly all imports, with even steeper penalties – ranging from 10 per cent to 42 per cent – targeting countries with significant trade surpluses with the United States, such as China and Viet Nam, but also with insignificant trade ties including many Arab States.[1]

1. Executive Order 14257, 2 April 2025.

While energy, copper, pharmaceuticals, semiconductors and lumber are currently exempted, non-oil exports such as textiles, fertilizers, chemicals, aluminium and electronics are now subject to high tariffs. These measures effectively nullify the preferential treatment previously granted to Bahrain, Jordan, Morocco and Oman under bilateral free trade agreements (FTAs), marking a shift away from long-standing trade partnerships. Even imports from Egypt and Jordan's Qualifying Industrial Zones (QIZs) are not exempted from the universal tariff.

This new wave of trade restrictions is markedly different from past United States-China tensions in three key aspects: it is global in scope, imposes historically high tariffs that exceed the World Trade Organization commitments, and remains politically fluid, with potential for bilateral revisions.

Against all expectations, on 9 April, President Trump announced a 90-day pause on all "reciprocal" tariffs except those imported from China which will see tariffs increased to at least 145 per cent. Moreover, on 11 April, the White House announced the removal of reciprocal tariffs from a range of electronic goods covering smartphones and computers, among others. China would receive the greatest benefit from these new exemptions, which represent around 22 per cent of its goods exports to the United States market.[2]

The present brief is part of the continued efforts by ESCWA to timely monitor and evaluate the impacts of global changes on the region's economic prospects. It provides a preliminary, short-term estimate of macroeconomic impacts on the Arab region in 2025, focusing on mechanical effects of trade diversion rather than full-scale global value chain (GVC) realignments, which require more time to materialize.

2. ESCWA calculations using TradeMap.

2. United States-Arab trade relations: key highlights

2.1 Changing pattern of the United States trade relevance to the Arab region

- Arab exports of goods to the United States dropped from $91 billion in 2013 (6 per cent of total) to $48 billion in 2024 (3.5 per cent of total), largely due to reduced United States imports of crude oil and petroleum products. The United States has maintained a trade surplus with the Arab region since 2015, which was about $20 billion in 2024, suggesting that the region imports more goods from the United States than it exports (figure 1).

- Most Arab countries have a moderate or low share of exports to the United States market, except Jordan (figure 2). Even FTAs and QIZ agreements signed with Egypt and Jordan have not significantly boosted the exports of Egypt, compared to Jordan, which benefited from preferential access to the United States market for all goods incorporating substantial Israeli components.

Arab exports of goods to the United States

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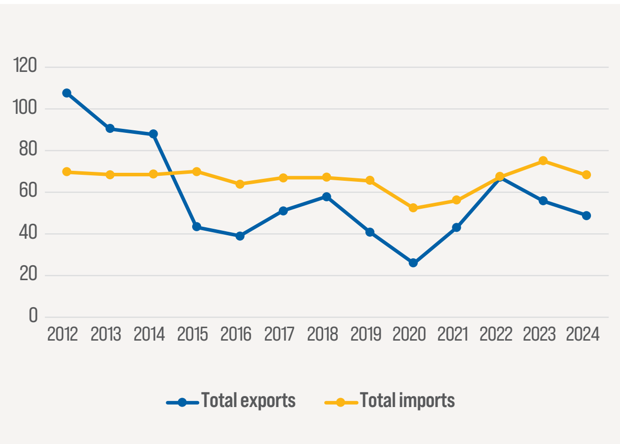
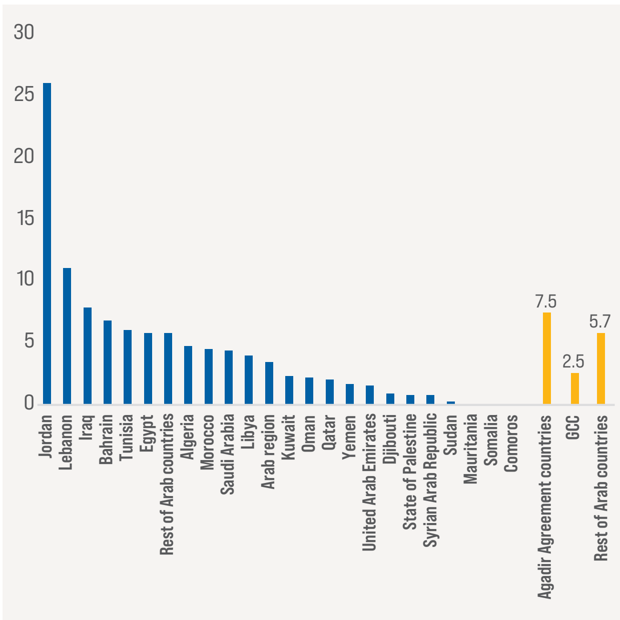
Figure 1. The Arab region's trade with the United States: exports and imports (Billions of dollars)



Source: ESCWA calculations.

Figure 2. Shares of Arab countries' exports to the United States, 2024 (Percentage of total goods exports)

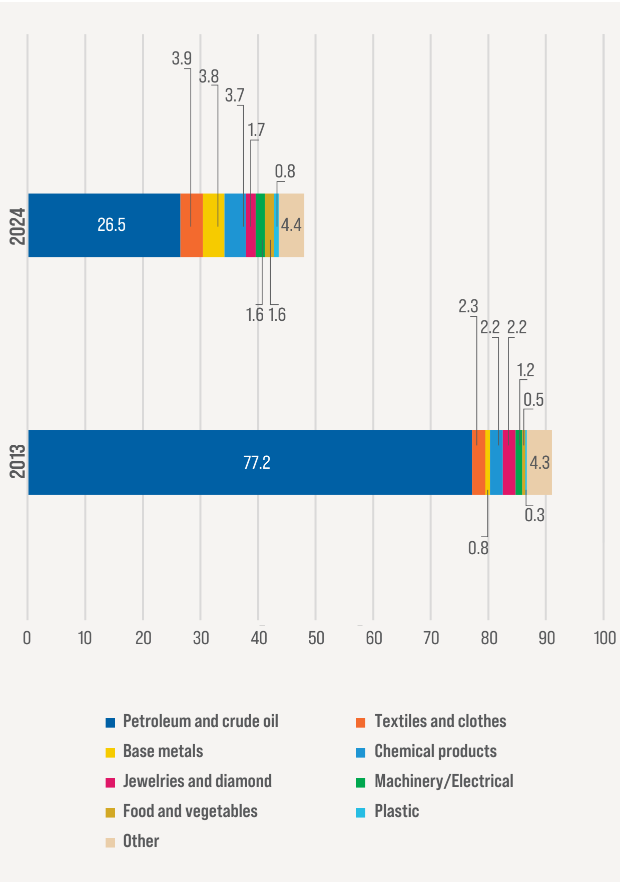


Source: ESCWA calculations.

Note: The category "Rest of Arab countries" includes Arab States that are neither members of GCC nor part of the Agadir Agreement.

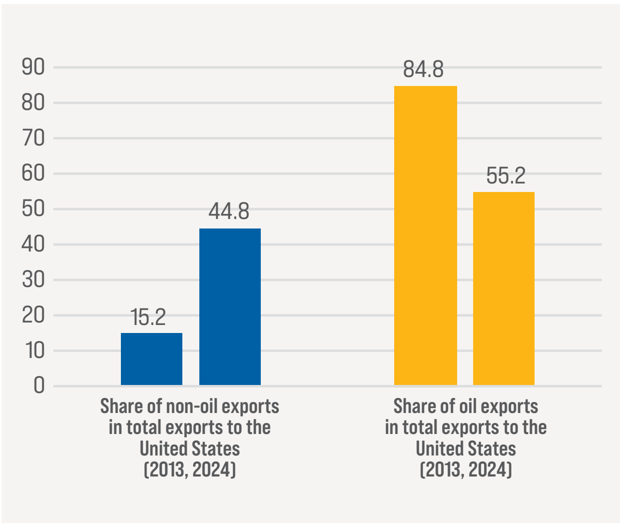
- Arab exports to the United States are largely dominated by energy and mineral products. However, over time, exports of oil and petroleum products to the United States declined substantially (figure 3).
- The non-oil exports from the region to the United States have gone up from $14 billion in 2013 to $22 billion in 2024,[3] marking a three-fold increase in their share of total exports (figure 4).
- The new United States tariffs on Arab goods will have a direct impact on these non-oil exports to the United States market, amounting to $22 billion, while the oil and petroleum products are exempted from new tariff increases.

Figure 3. **Arab exports to the United States, by product category, 2024 (Billions of dollars)**



Source: ESCWA calculations.

Figure 4. **Share of oil and non-oil exports in total exports to the United States (Percentage)**



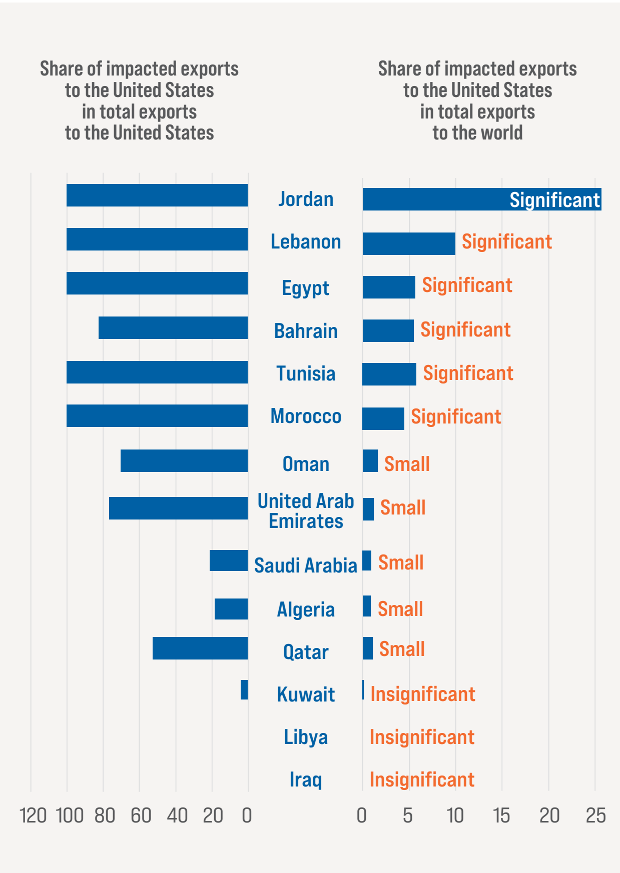
Source: ESCWA calculations.

3. ESCWA calculations using trade flows at HS6 level.

2.2 Varied impact in the region due to new tariff hikes by the United States

A country having a higher share of non-oil exports to the United States is expected to be directly impacted. The direct impact is particularly high for countries where exports to the United States constitute a major share of their total global exports. Based on these two indicators, **6 Arab countries are projected to face a significant impact, 5 a small impact and 11 an insignificant impact (figure 5).**

Figure 5. Variation of direct exposure and impacts across Arab countries



Source: ESCWA calculations.

Note: Insignificant impact implies zero or minimal share of total exports being impacted by the tariff hike; small impact implies less than 5 per cent of total exports being impacted; significant impact implies nearly 5 per cent or more.

Impact on the Arab countries

Significant impact:

Bahrain, Egypt, Jordan, Lebanon, Morocco and Tunisia

Small impact:

Algeria, Oman, Qatar, Saudi Arabia and the United Arab Emirates

- Exports from six Arab countries – Bahrain, Egypt, Jordan, Lebanon, Morocco and Tunisia – are expected to be significantly affected by the new tariff hikes, implying that a 5 per cent share or higher of their total exports is directly impacted. Jordan is the most directly impacted, with nearly 25 per cent of its goods exported to the United States.

- Exports from five Arab countries would face a small impact, implying that less than 5 per cent of their total exports are impacted. These countries include Algeria, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Additionally, the re-exports market of the United Arab Emirates, valued at approximately $10 billion to the United States, could be impacted by high tariffs imposed on original sources.

- Three countries – Iraq, Kuwait and Libya – have zero or minimal non-oil exports to United States market, thus currently having no direct exposure to the increase in tariffs.

- Eight countries in the region, namely the Comoros, Djibouti, Mauritania, the State of Palestine, Somalia, the Sudan, the Syrian Arab Republic and Yemen, do not have exports to the United States in 2024, implying that they have insignificant direct exposure to the new tariff hikes.

2.3 Potentially significant indirect impact of the new tariff increase on the Arab region

- While the new tariffs have a limited direct impact on Arab exports to the United States markets, mainly through the non-oil exports, Arab economies may face indirect negative effects due to weaker global demand, particularly from China and the European Union, both of which are major buyers of Arab goods.

  - The European Union absorbs 72 per cent of the exports of Tunisia and 68 per cent of the exports of Morocco, and 17 per cent of total Arab exports.

  - China imports 22 per cent of the Gulf Cooperation Council (GCC) countries' oil and chemicals, and 15 per cent of total Arab exports.[4]

- Potential opportunities may arise for Arab exporting countries. The tariffs imposed by the United States on 2 and 9 April on countries like China, India and the European Union may create relative advantages for Arab exporters like Egypt and Morocco, whose goods face comparatively lower tariffs. However, with the pause announced on 9 April for most countries, excluding China, the trade diversion effect in favor of most Arab countries is likely to disappear.

3. Toll of the United States tariffs: assessing the impact on Arab economies

The impact of the United States tariff escalation on Arab countries will materialize through three main channels: direct trade losses from reduced access to the United States market and weaker demand from the European Union and China; macroeconomic spillovers from the global slowdown affecting exports and investment; and longer-term shifts in GVCs as supply routes adjust to geopolitical risks.

Preliminary estimates for this brief, based on the global computable general equilibrium model, assume full implementation of United States tariffs (as of 2 April) and Chinese retaliation (as of 5 April), factoring in sectoral

4. ESCWA calculations using trade flows at HS6 level.

exemptions and both direct losses and potential gains from trade diversion.

The analysis excludes energy market dynamics shaped by OPEC+ decisions and the broader effects of projected United States fiscal contraction, which could further influence global demand. While the tariffs announced on 2 April represent the principal scenario for the United States, the "pause scenario" decided on 9 April, along with the new exemptions, may serve as an intermediate case between the "extreme disruption to GVCs scenario" of 2 April and a potential "new stable scenario" to be based on ongoing bilateral negotiations between the United States and more than 70 partner countries. Sections 3.1 and 3.2 present impacts of "extreme scenario", while section 3.3 highlights the impacts of the "pause scenario".

Impact of the United States tariff escalation on Arab economies:

direct trade losses

macroeconomic spillovers

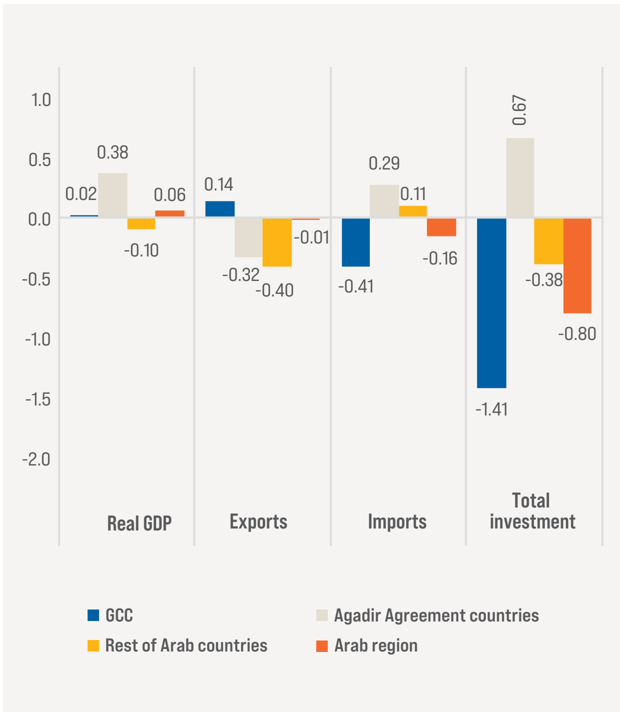
longer-term shifts in GVCs

3.1 Macroeconomic impacts

The net impact of increased tariffs on Arab exports to the world is limited. However, the impacts vary across Arab country groups (figure 6). The Agadir Agreement countries (Egypt, Jordan, Morocco, Tunisia) would experience moderate net impact in 2025, primarily due to trade diversion effects reducing the direct adverse effect on their initial exports to the United States market. For example, Egypt and Morocco are both expected to boost their price competitiveness and take profit from trade diversion effects on the United States market.

The net impact on GCC countries is expected to be small. An even more positive outcome could materialize if they leverage their competitiveness in transport and logistics. This is particularly

Figure 6. **Impacts on four macroeconomic indicators in 2025 (Percentage change compared to the reference year)**



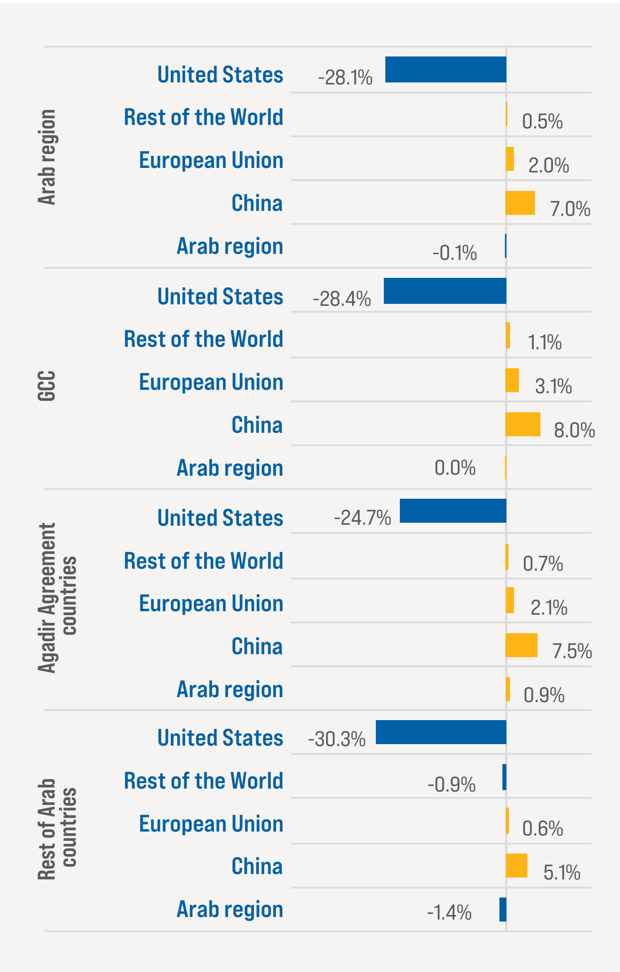
Source: ESCWA calculations using global CGE simulation results.

the case of the United Arab Emirates and Saudi Arabia. However, the GCC may experience significant losses in oil revenues, due to declining oil prices and reduced export volumes (figure 7). These losses are influenced not only by global demand but also by the OPEC decisions regarding production quotas.

3.2 Trade impacts by origin and destination

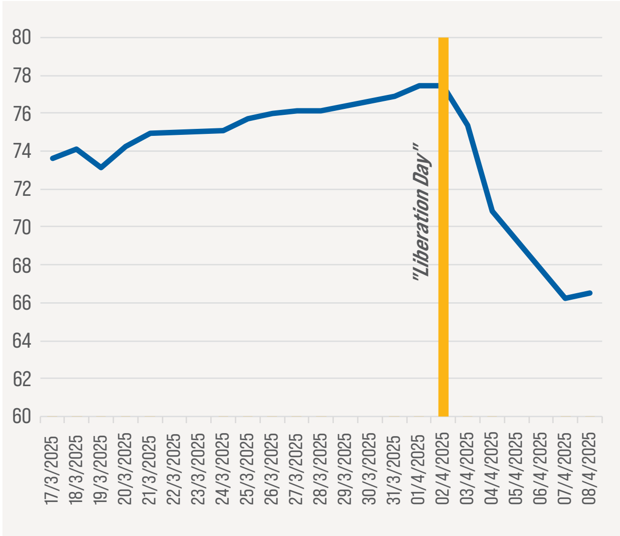
The newly imposed tariffs are expected to significantly reduce imports from the United States across Arab subregions due to higher costs (figure 8).

Figure 8. Impact on goods imports of Arab subregions from major sources in 2025 (Percentage change compared to the reference year)



Source: ESCWA calculations using global CGE simulation results.

Figure 7. Price of the OPEC crude oil basket (Dollar per barrel)



Source: ESCWA calculations.

As a result, the trade surplus currently held by the United States with the Arab region may decrease. Arab countries are likely to diversify their import sources, potentially increasing imports from the European Union and China as replacements for costlier goods from the United States. There is also potential for increased intra-Arab trade, particularly among the Agadir Agreement countries.

3.3 The "pause scenario"

With the new exemptions on electronic products, which add to earlier decisions regarding energy, pharmaceutical goods and rare metals, the impact of the "pause scenario" on the Arab region is relatively negligible, with minimal gains or losses across its subregions. The harmonized application of tariff increases on the rest of the world significantly reduces the

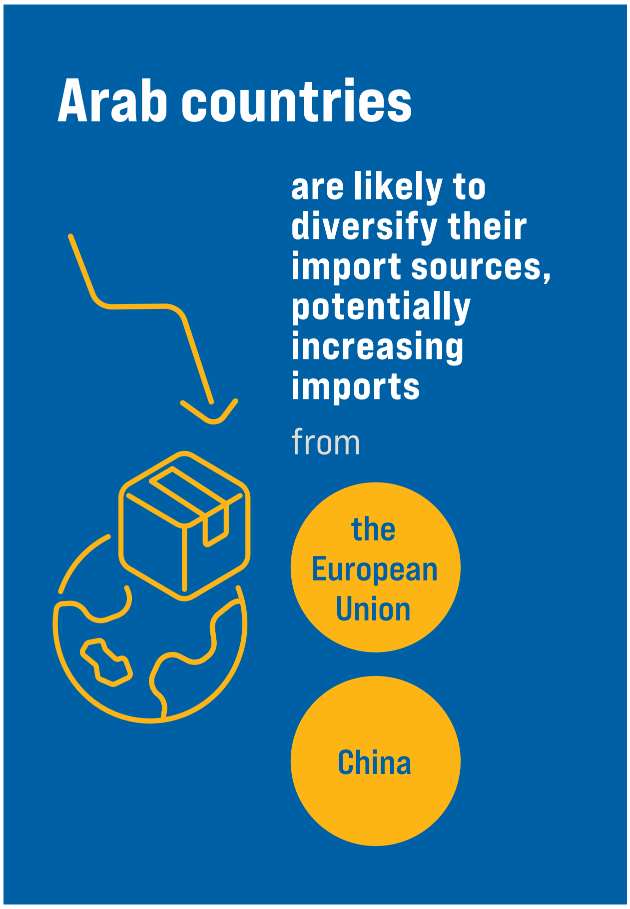
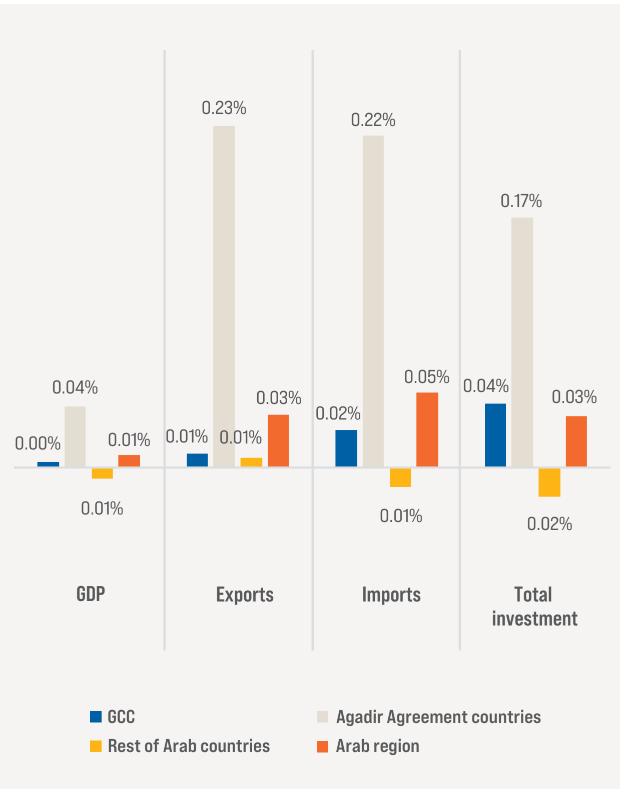
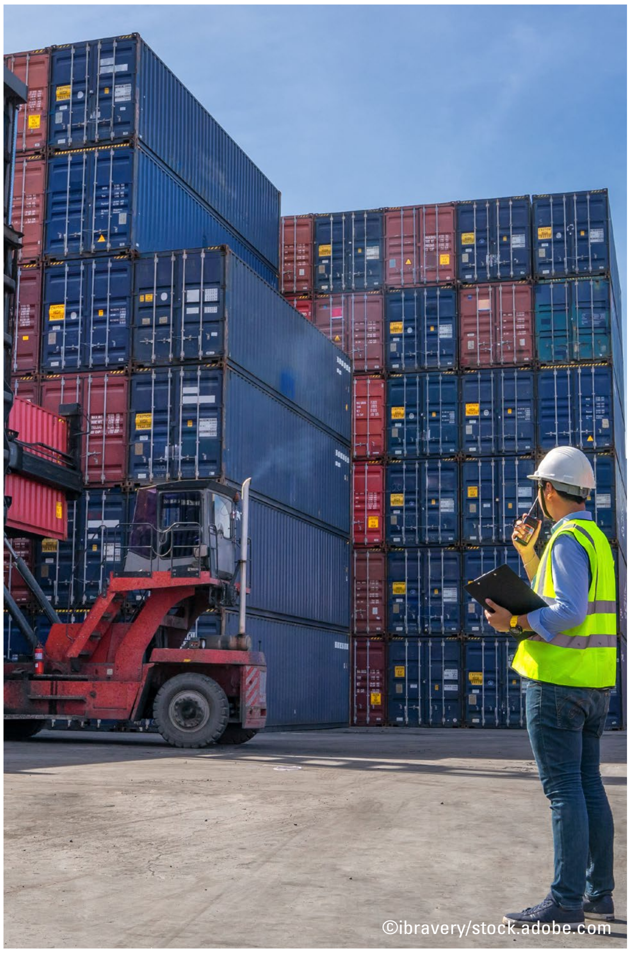


Figure 9. Macroeconomic impacts in 2025
(Percentage change compared to the reference year)



Source: ESCWA calculations using global CGE simulation results.



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costs associated with trade diversion effects among the major trade partners of the United States, mainly the European Union and East Asian countries. Even the growth repercussions for China are expected to be more limited. Global demand for energy products may experience a slight decline, but this is unlikely to impact oil-exporting countries' revenues in the short term.

4. Trade shocks to fiscal and financial strain: rising global uncertainty is driving up financing costs

The tariff hikes have adverse spillover effects on global financial stability and investors' confidence, leading to a notable rise in sovereign bond yields. This increase drives up the cost of market-based financing, particularly impacting middle-income countries (MICs) with substantial debt service obligations. Between 2 and 9 April 2025, yields of 10-year bonds rose by 32 basis points in GCC countries and 36 basis points in Arab MICs (figure 10).

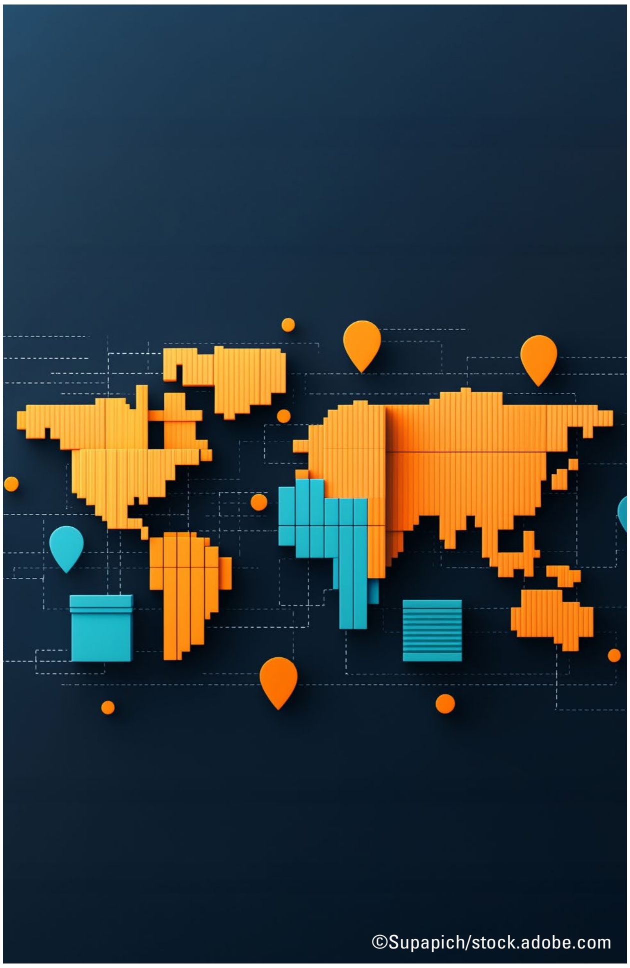
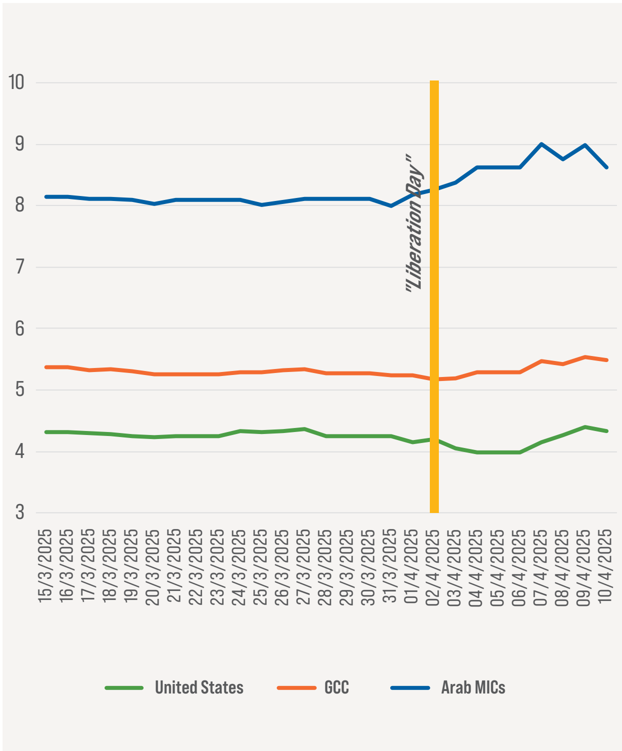


Figure 10. **10-year bond yields issued in dollars by the United States, GCC countries and Arab MICs**



Source: ESCWA calculations based on the LSEG data.
Note: Averages for GCC and MICs are unweighted averages.

With rising yields, Arab MICs – many of which already under debt refinancing pressure – are facing higher borrowing costs, further increasing their interest payments burden. Assuming a permanent 36 basis point increase in borrowing costs and no change in the structure of new debt issuances from 2024, Arab MICs would face notable increases in interest payments on market debt in 2025: Egypt: +$56 million; Morocco: +$39 million; Jordan: +$14 million; Tunisia: +$5 million. These additional costs, while modest in absolute terms, translate into meaningful fiscal implications, equivalent to an increase in interest payments by 0.3 per cent in Egypt and 1.3 per cent in Morocco.[5]

Potential increases in interest payments for Arab MICs in 2025

Egypt: +$56 million

Jordan: +$14 million

Morocco: +$39 million

Tunisia: +$5 million

5. Policy recommendations

- **Prepare for mixed and asymmetric impacts:** Arab countries must recognize the diverse, and sometimes contradictory effects of the United States tariff escalation; some may benefit from improved price competitiveness, while others may face direct export losses or fiscal pressures due to falling energy prices linked to weakened demand in China and India.

- **Deepen regional integration for greater resilience:** in response to rising global protectionism, Arab countries should accelerate regional integration under frameworks such as the Pan Arab Free Trade Area, the GCC Customs Union and the Agadir Agreement, enhancing collective bargaining power and intra-regional trade to absorb external shocks.

5. ESCWA calculations based on the LSEG data.

- **Diversify trade and investment partnerships:** the fragmentation of multilateral trade rules underscores the urgency for Arab countries to recalibrate trade strategies, diversify markets and collectively negotiate to protect regional economic interests and strengthen resilience against unilateral tariff shocks and shifting global demand.

- **Engage proactively in strategic negotiations with the United States:** Arab countries should pursue constructive dialogue with the United States, aligning with other global actors seeking to renegotiate tariff terms and avoid long-term trade distortions. Engagement should aim to preserve market access and secure preferential treatment where possible.

- **Leverage legal and preferential carve-outs:** rather than retaliate, Arab countries should strategically pursue carve-outs under existing FTAs or special frameworks, such as QIZs. Countries without FTAs with the United States can leverage third-party precedents to negotiate preferential exemptions, while Jordan and Morocco may need to recalibrate their FTA terms to avoid preference erosion.

- **Capitalize on GVC reconfigurations:** as supply chains are reshaped by geopolitical tensions, Arab economies should position themselves as attractive alternatives in emerging trade corridors by investing in logistics, regulatory alignment and labor mobility to integrate into new trade coalitions and segmented GVCs.

- **Strengthen fiscal buffers and resilient financing strategies to address vulnerabilities to trade shocks:** low oil prices will adversely impact the oil-exporting countries, increasing the risk of fiscal vulnerabilities. In an increasingly uncertain global environment, Arab economies must develop credible fiscal resilience frameworks to address vulnerabilities to evolving trade patterns and geopolitical realignments. Key priorities include attracting productive foreign direct investment, mobilizing domestic private investment, accelerating export diversification and value addition, and deepening integration into regional value chains. These efforts are essential to building fiscal resilience, supporting people and economies.

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