Atlantic Council
RAFIK HARIRI CENTER FOR THE MIDDLE EAST

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MONTHLY NEWSLETTER

February 2025

Greetings from Washington,

From Protectionism to Liberalization

Recent years have seen a resurgence in protectionist policies, disrupting decades of trade expansion. Historically, the United States has oscillated between protectionist tariffs and free trade. The Smoot-Hawley Tariff Act of 1930, which raised U.S. import duties to record levels, exacerbated the Great Depression, leading to a dramatic collapse in global trade—falling by nearly 66% between 1929 and 1934. Recognizing the economic damage, the U.S. shifted towards trade liberalization, beginning with the Reciprocal Trade Agreements Act of 1934 and later the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). This post-World War II rules-based trading system facilitated economic growth, reduced consumer prices, and expanded global trade.

Recent Tariff Escalations: Trump, Biden, and Beyond

Trump Administration (2017–2021)

In his first presidential term, President Donald Trump initiated a significant shift toward protectionism, imposing tariffs on steel (25%) and aluminum (10%) in 2018, affecting U.S. allies such as Canada, Mexico, and the EU. His administration launched a trade war with China, imposing tariffs on approximately $380 billion worth of Chinese goods by 2019. China retaliated with countermeasures targeting U.S. exports such as soybeans and machinery, disrupting trade flows. While these tariffs aimed to boost domestic industries, they primarily resulted in higher costs for American businesses and consumers while failing to significantly reduce the trade deficit. The uncertainty caused by these policies also dampened global manufacturing activity and investment.

Biden Administration (2021–2025)

President Joe Biden largely maintained Trump-era tariffs, signaling strategic continuity of trade rivalry toward China. While he eased tensions with U.S. allies—lifting steel and aluminum tariffs for the EU, UK, and others—Biden expanded tariffs on Chinese goods, including semiconductors and electric vehicles, by an additional $18 billion in May 2024. Domestic political pressure to appear "tough on China" limited tariff relief, and combined Trump-Biden policies were found to have slightly reduced U.S. economic output (-0.2% GDP) and increased consumer prices. Though Biden softened the rhetoric on trade wars, the core protectionist measures remained intact.

2025 and Beyond: A New Protectionist Era

With a return to aggressive protectionism in 2025 under President Trump's second term, U.S. tariffs have expanded dramatically. A 10% blanket tariff on all Chinese imports was swiftly imposed, with plans to double it to 20%. The U.S. also targeted allies, announcing 25% tariffs on imports from Canada and Mexico and signaling similar measures for EU goods. In response, China imposed retaliatory tariffs (10–15% on $14 billion of U.S. exports). This new round of tariff wars is reminiscent of 1930s-style protectionism, raising concerns about a broader fragmentation of the global trading system.

Global Impact of Tariff Escalation

Tariffs have contributed to rising costs for multinational companies dependent on cross-border inputs, increasing consumer prices in the U.S. and beyond. As a result, global trade volume growth has slowed by about 1% in 2019, the weakest since the financial crisis. Thus, central banks face the challenge of balancing inflation with sluggish economic activity, further complicating monetary policy decisions under persistent inflationary trends.

China, as the primary target of U.S. tariffs, has faced export losses and slower GDP growth. Retaliatory measures, such as a 10% tariff on U.S. crude oil and LNG, have redirected Chinese trade flows. Manufacturing has partially shifted to Southeast Asia, benefiting Vietnam and India. However, China remains a central hub in global supply chains, and its retaliatory tariffs have hurt U.S. exporters.

On the other hand**,** despite the U.S.-Mexico-Canada Agreement (USMCA), tariffs on Canadian and Mexican goods risk disrupting tightly interwoven supply chains, especially in the auto and agriculture sectors. Retaliatory tariffs and legal challenges under trade agreements are expected, with projections indicating a potential 0.3% reduction in long-term U.S. GDP, alongside economic slowdowns in Canada and Mexico.

Implications for the MENA Region

As global trade and industrial activity weaken, demand for energy declines. When U.S.-China trade tensions escalate, oil prices typically fall. Given that many MENA economies, particularly Gulf states, still rely on oil revenues, price volatility poses fiscal risks for MENA's oil exporting countries. A prolonged slowdown in global trade could derail economic diversification initiatives, such as Saudi Arabia's Vision 2030.

On the other hand, MENA nations with diversified export sectors, such as Egypt and Morocco, may see reduced demand for their goods from the U.S. and Europe due to the expected economic slowdowns resulting from the trade tariff escalation. Additionally, financial markets in MENA are susceptible to investor risk aversion triggered by trade uncertainty. Many Gulf states peg their currencies to the U.S. dollar, meaning U.S. tariff-driven inflation and high interest rates can spill over, affecting credit growth and investment in the region at large.

Potential Opportunities for MENA

Despite the escalating economic risk due to the inflationary impact of trade barriers, MENA countries might benefit from trade diversion. For instance, Bahrain's aluminum exports could find alternative markets if U.S. tariffs reduce China's supply. Similarly, if global firms seek to diversify manufacturing hubs, North African nations with competitive labor markets could attract investment. However, so far, most trade shifts have favored Southeast Asia over MENA.

Geopolitical Balancing Act

The U.S.-China economic rivalry places MENA nations in a delicate position. Gulf states, in particular, seek to maintain strategic ties with both economic powerhouses—welcoming Chinese infrastructure investment while relying on U.S. security partnerships. Heightened trade tensions may increase pressure on MENA nations to align with one side, complicating their economic and foreign policy strategies.

Charting a Resilient Future for MENA

To navigate the economic uncertainty triggered by escalating U.S. tariffs, MENA countries must take proactive measures. Gulf states should accelerate economic diversification efforts to reduce reliance on oil revenues, while non-oil exporters must expand trade with emerging markets to mitigate risks from U.S.-China tensions. Strengthening trade agreements with fast-growing Asian and African markets will help open new opportunities, particularly in sectors such as light manufacturing and logistics, which stand to benefit from global supply chain shifts.

Additionally, MENA governments must build financial buffers, reinforcing fiscal reserves to cushion against oil price volatility, while central banks should develop strategies to manage inflationary pressures linked to U.S. trade policy. Diplomatically, MENA nations should advocate for open trade policies while maintaining a neutral stance between economic superpowers. Regional cooperation through organizations like the Gulf Cooperation Council can serve as a strategic platform to present a unified stance against policies harming the region's economic interests. By implementing these measures, MENA economies can better withstand the fallout from global trade disputes and position themselves for long-term resilience and growth.

Sincerely,

Racha Helwa
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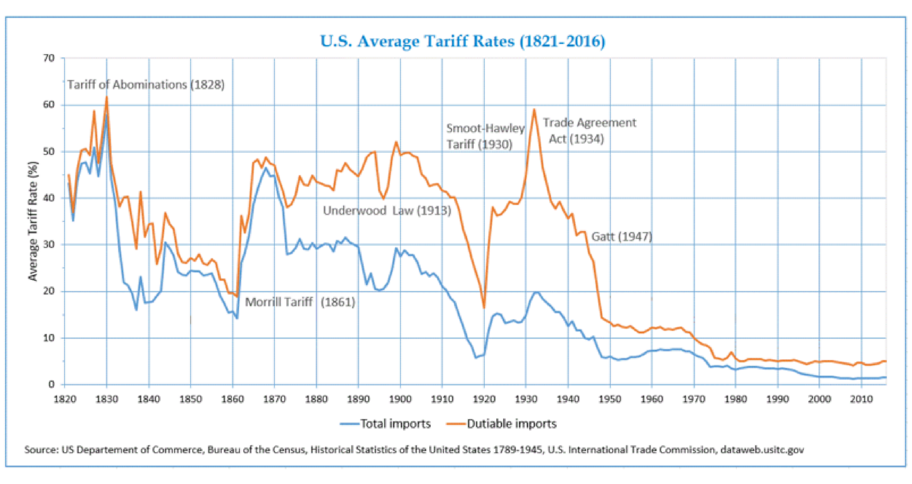
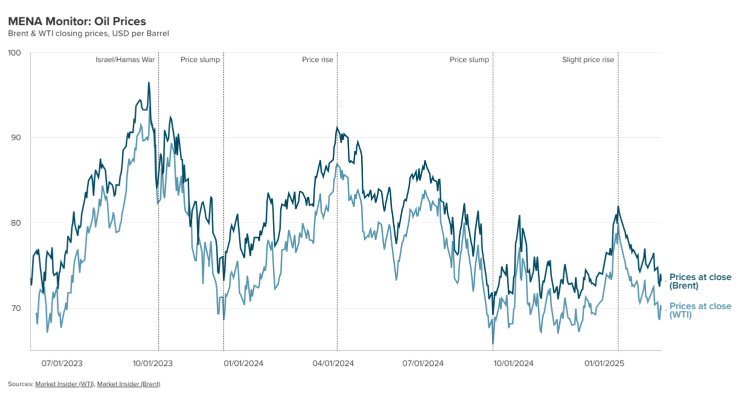
Rafik Hariri Center for the Middle East
Atlantic Council

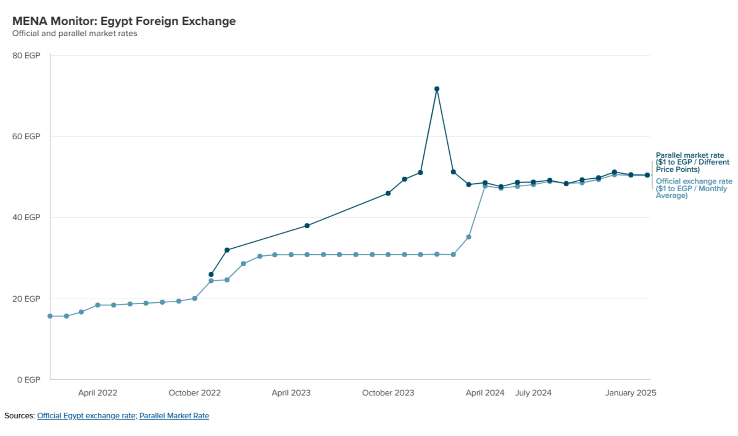
Big Data



MENA Monitors: Oil & Foreign Exchange

Check out our latest updates to the MENA Monitors, which tracks the fluctuations in the oil and foreign exchange markets in select MENA countries, considering the escalating geopolitical crisis in the region:





View Monitors

Women Entrepreneurs (WIn Fellowship) Events

Past Event
How creative ventures are fueling the UAE's cultural scene

On February 26th, the Women Innovator Fellowship hosted an event that dove into how visionary entrepreneurs drive cultural evolution in the UAE, foster cross-cultural collaborations, and push boundaries in ways that influence the region and beyond. Speakers included Secretary General of Great Arab Minds H.E. Saeed Al Nazari, Vice Chair of AmCham Abu Dhabi Lina Lampkin, Co-Owner and Executive Producer of Blink Studios Global Nathalie Habib, Head of Community at MIZA Abu Dhabi Zarina Ateig, and Director, Arts, Culture and Heritage at Salama Bint Hamdan Al Nahyan Foundation Pradeep Sharma.

Watch Event

The MENA Economic Digest

- IMF lowers 2025 Saudi Arabia growth forecast on extended oil production cuts (Reuters)
- Dubai hedge funds spike 50% as Tudor, Walleye join race to Middle East (Financial News)
- A Stronger Engine for Middle East and North Africa's Growth (IMF)
- Global Economy Stabilizes, But Developing Economies Face Tougher Slog (Relief Web)
- Middle East Economy Watch - February 2025 (PwC)