

March 2025

## Greetings from Washington

Two hundred years ago, British economist David Ricardo revolutionized economic thinking with his theory of *comparative advantage*. His core insight—that nations should specialize in producing goods where they have relative efficiency and trade with others to maximize overall welfare—became the intellectual bedrock of modern globalization. After World War II, Ricardo's logic guided the establishment of the [Bretton Woods institutions](#), [GATT](#), and eventually the [WTO](#), giving rise to the most interconnected global economy in history.

But today, the resurgence of protectionism—most recently in the form of proposed [25%](#) U.S. auto tariffs and a [50%](#) tariff on Russian oil—signals a sharp deviation from Ricardo's world. This isn't just a shift in policy; it's a rupture in economic philosophy. While the Middle East and North Africa (MENA) region is not a direct target of these tariffs, it stands to be deeply affected by the consequences of this global reorientation.

### From Comparative Advantage to Strategic Disadvantage

Ricardo's theory worked in a world where countries relied on one another for growth. In today's world, that interdependence runs far deeper than in Ricardo's time. In 1950, international trade as a share of global GDP hovered around [8%](#). By 2019, it had surged to over [60%](#). Global supply chains have become more complex than ever, with components of a single product often crossing multiple borders before reaching the consumer. This is especially true in the auto industry, where production spans continents and relies on tightly synchronized logistics.

Tariffs in this context are no longer just about protecting domestic industries. They are a blunt instrument in a highly integrated world, where one country's tariff can ripple across multiple economies, disrupt supply chains, raise prices, and slow growth. When major importers like the U.S. impose sweeping tariffs, the costs reverberate globally—raising inflation, weakening trade flows, and undermining the very foundations of the international economic order.

### How MENA Is Caught in the Crossfire

While the MENA region is not a direct player in U.S. car exports nor a major node in global auto supply chains, its economies are highly sensitive to the second-order effects of these disruptions. The region's exposure depends largely on where countries fall in the oil equation: **net oil exporters**—mainly the Gulf Cooperation Council (GCC) countries—and **net oil importers**, including several middle-income economies like Egypt, Jordan, Tunisia, and Morocco.

### 1. Oil Exporters: Tariff Shock Meets Oil Demand Volatility

For the Gulf states, energy exports still account for the lion's share of GDP and fiscal revenues. When global demand slows—whether due to auto tariffs, global inflation, or trade fragmentation—oil consumption drops. The auto industry alone accounts for nearly [80%](#) of global oil use. A dent in U.S. car sales, caused by a 25% tariff on imports, could, therefore, reverberate back to Gulf oil exporters.

Moreover, the proposed U.S. tariff on Russian oil introduces both opportunity and risk. Gulf producers like Saudi Arabia, the UAE, and Kuwait may benefit in the short term as buyers like China and India seek alternatives. However, this could strain the delicate OPEC+ coordination with Russia, risking market instability. Meanwhile, Gulf stock markets are already showing unease: recent losses in petrochemical firms and broader equity indices reflect investor concerns about weakening demand and future price volatility.

There's also the monetary channel: most GCC currencies are pegged to the U.S. dollar. Tariff-induced inflation in the U.S. could prompt interest rate hikes by the Federal Reserve, forcing Gulf central banks to follow suit—tightening credit conditions and slowing non-oil sectors, just as they try to diversify.

### 2. Oil Importers: Squeezed from All Sides

For MENA's middle-income oil importers, the outlook is more complex: On one hand, the inflationary effect of the imposed tariffs will significantly impact countries like Egypt, Tunisia, and Jordan, which are already grappling with [high](#) inflation, public debt, and structural unemployment. These economies heavily depend on trade—including oil (as net oil importers), and essential goods like food and manufactured products.

Increased global tariffs threaten to raise import costs and further strain current account balances. Slower global growth also means reduced demand for their exports—textiles, agricultural products, and light manufacturing—which are often price-sensitive.

Additionally, on the public revenue side, many of these countries rely on remittances from Gulf economies, which could fall if growth in the GCC slows down due to weaker global demand.

Finally, some of these economies are also exposed to debt markets and IMF programs. If global interest rates rise due to inflationary pressures from tariffs, the cost of external borrowing will go up, deepening fiscal vulnerabilities. The space for stimulus or social spending—already constrained—may shrink further.

### The Quiet Diplomacy of MENA

So far, MENA leaders have remained largely silent on U.S. tariff actions. This is partly because their economies haven't been directly targeted and also due to geopolitical caution. For many, especially in the Gulf, strong U.S. ties are essential for security and investment. Public criticism of American trade policy risks more than just economic retaliation—it could upset the broader strategic balance.

Instead, many are hedging by deepening ties with Asian powers, particularly China. Beijing's [\\$400 billion](#) deal with Iran and its investments in Gulf infrastructure point to a long-term pivot eastward—a quiet but telling response to Western protectionism. Yet even these new alliances carry risks, particularly if global trade tensions morph into geopolitical rivalries.

Ricardo's elegant theory of mutual gain through trade once promised prosperity through cooperation. But in today's fractured world, that promise is fading. For the MENA region—straddling energy corridors, trade routes, and strategic rivalries—the cost of unraveling interdependence is high.

Tariffs may be crafted in Washington, but their shockwaves are already being felt in Riyadh, Cairo, and Tunis. As the global trading system reorders itself, the region's leaders will need to walk a tightrope: adapting to a more fragmented world without becoming collateral damage.

Sincerely,

**Racha Helwa**  
Director, empowerME  
Rafik Hariri Center for the Middle East  
Atlantic Council

## New Issue Brief



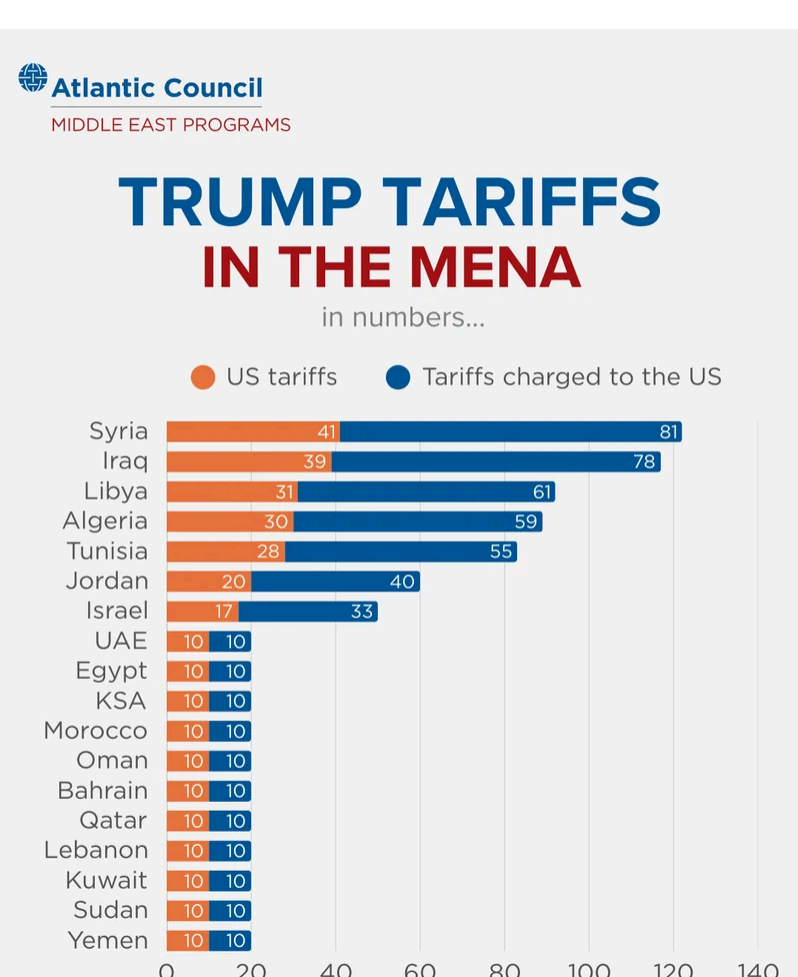
### A lifeline under threat: Why the Suez Canal's security matters for the world

By [Racha Helwa](#) & [Perrihan Al-Riffai](#)

The Suez Canal is both a maritime choke point and a vital waterway for global trade and energy security. Given its strategic role as the fastest sea route between Asia and Europe, any disruption to the Suez Canal can have outsized impacts on global commerce and energy markets, as have occurred in recent years. Read our latest [issue brief](#) that explores how the historical and current geopolitical conflicts in the Suez Canal impact global trade and the international economy

[Read Here](#)

## Big Data



Source: [White House](#) (2025)

## Expert's React

Read the key takeaways on how Trump's tariffs will impact the MENA region and the importance of the Suez Canal amidst geopolitical conflicts from our experts



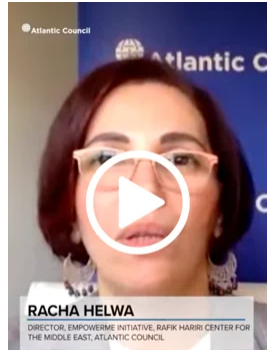
- [The exporter-importer divide, and more intra-MENA trade](#) by Racha Helwa

- [Downline risks to Gulf oil economies](#) by Inwook Kim

- [There was a big debate in the chat about who benefits from the Suez Canal. What is the real story?](#) By Racha Helwa



## New Video

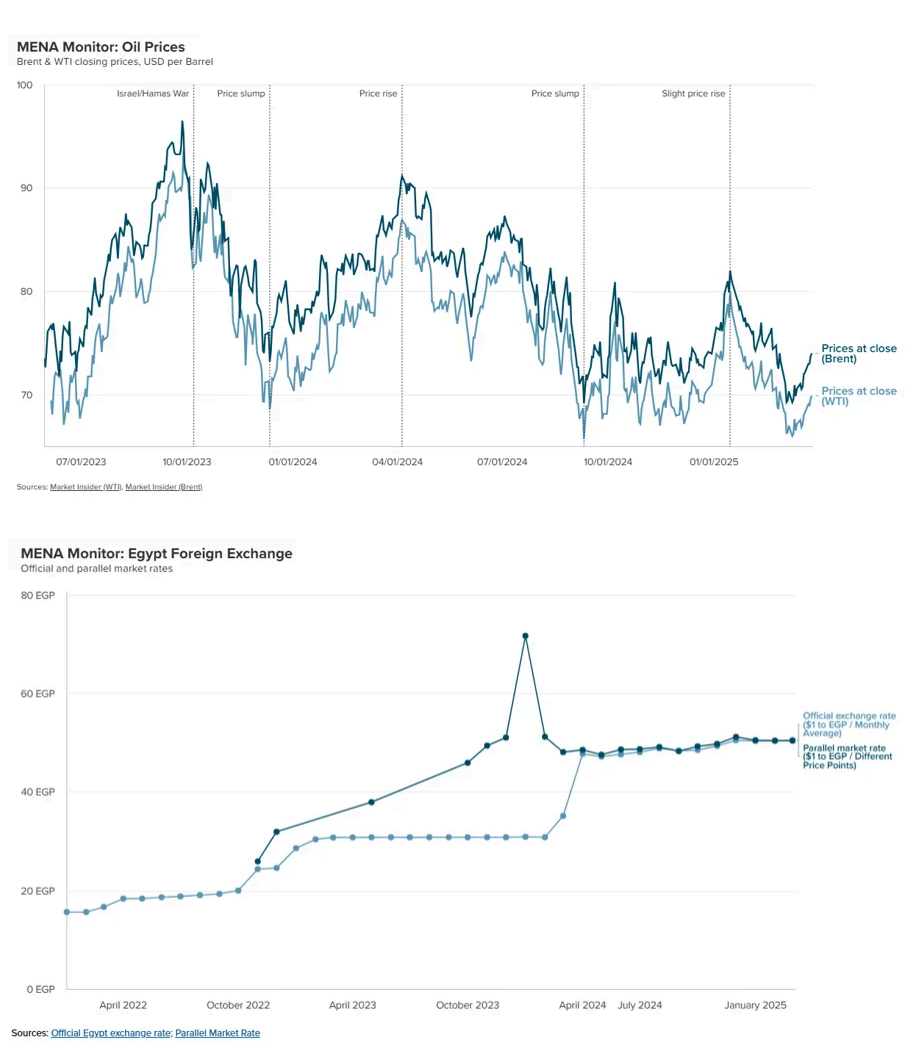


**Why the Suez Canal is a lifeline for the global economy.**  
empowerME Director Dr. Racha Helwa analyzes how recent Houthi attacks on shipping vessels in the Red Sea poses significant risks for the Suez Canal and the greater global economy, highlighting the importance of the Canal on global trade.

[Watch Video](#)

## MENA Monitors: Oil & Foreign Exchange

Check out our latest updates to the [MENA Monitors](#), which tracks the fluctuations in the oil and Egypt's foreign exchange market, considering the escalating geopolitical crisis in the region:



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## The MENA Economic Digest

- [How Trump's latest tariffs impact the Middle East](#) (AI-Monitor)
- [Middle East Companies Prepare for Limited Direct Hit from New US Tariffs – \(The National\)](#)
- [How Tariffs Could Impact the Middle East North Africa Region – \(S&P Global Market Intelligence\)](#)
- [Trump 2.0 Tariffs: What Cost for the World Economy?](#) – (CEPII Policy Brief)
- [Global: The Economic Impact of Trump's Tariffs – \(BBVA Research\)](#)
- [US Tariffs: What's the Impact?](#) – (J.P. Morgan Research)
- [Trump Tariffs: Mostly Talk, or Big Action?](#) – (Goldman Sachs)
- [Trump Tariffs Set to Wipe Out Nearly \\$2 Trillion From US Stocks – \(Bloomberg\)](#)

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