TRUMP 2.0: Implications of the New U.S. Trade Regime

U.S. Trade

The United States is the world's largest economy and top trading nation, importing and exporting trillions of dollars worth of goods and services annually. In 2024, for example, U.S. imports reached about \$3.29 trillion and exports about \$2.08 trillion.

Major U.S. trading partners include Mexico, Canada, China, the European Union, and Japan – these countries account for the bulk of U.S. trade. By contrast, Nigeria represents only around 0.3% of U.S. global trade. With \$9.9 billion worth of goods trade in 2024. Historically, crude oil dominated U.S.–Nigeria trade. In 2011, U.S. imports from Nigeria (mostly oil) peaked at \$33.8 billion. But the U.S. shale oil boom and Nigeria's production issues caused those imports to collapse to under \$2 billion by 2015 (Chart 1).

In 2024, U.S. goods exports to Nigeria jumped to \$4.2 billion (up 61% from 2023) making Nigeria a growing market for American cars, refined petroleum products, wheat, equipment etc. Even so, the U.S. typically runs a trade deficit with Nigeria.

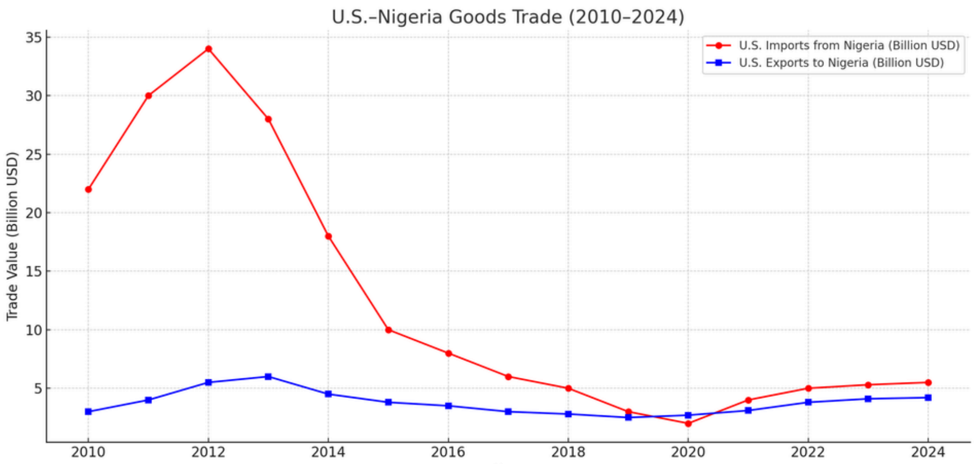


Chart 1

> *Nigeria's surplus with the U.S. largely stems from oil trade dynamics, not any high Nigerian tariffs on U.S. goods. However, the U.S. has raised concerns over Nigeria's import restrictions on 25 categories of goods*

All About the U.S. Trade Deficits

The U.S. has run persistent trade deficits for about 5 decades. A trade deficit is the gap between imports and exports. These deficits mean the U.S. buys far more from the world than it sells.

The biggest contributors are China, Mexico, the European Union, and other manufacturing exporters like Vietnam (Chart 2). Chart 3 illustrates the recent trajectory of US trade deficits; after hovering around $500–600 billion in the mid-2010s, it ballooned to unprecedented heights above $900 billion by 2022.

In reality, the U.S. trade deficit is mostly driven by macroeconomics not foreign tariffs. The U.S. spends more than it produces, and finances the gap by borrowing or attracting foreign capital.

Key drivers of US deficits:

- Low U.S. savings rate (S) and high investment (I),
- The dollar's reserve-currency status which keeps it strong and
- Cheap imports.

Thus, while trade deficits are often politicized, they tend to persist unless underlying S/I balances change. Trade policy alone has limited impact on the total deficit.

U.S. Deficits on goods and services trade by Country

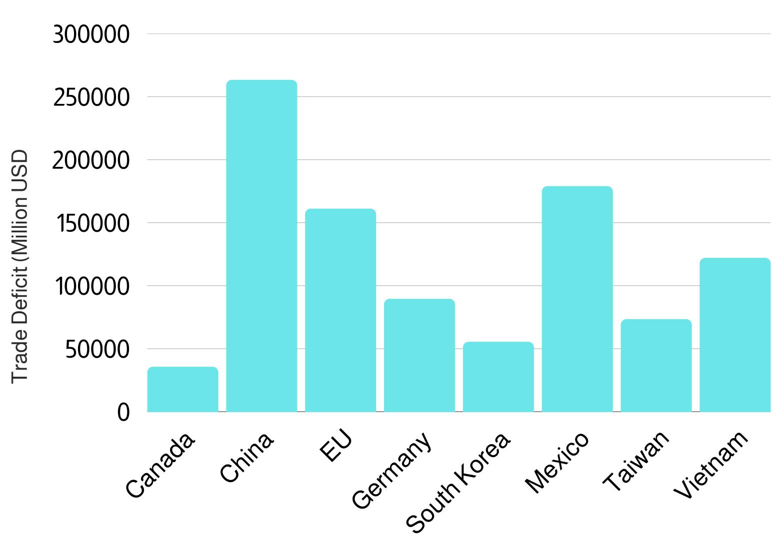


Chart 2

Chart 3

The U.S. trade deficit is a chronic feature of its economy, reflecting structural factors, and any linkage between tariffs and the deficit is complex.

S = I + NET EXPORT

> *While tariffs alter who the U.S. buys from (reducing one bilateral deficit while widening another), they haven't significantly altered how much the U.S. imports or the total deficit.*

IMPLICATIONS FOR GLOBAL TRADE

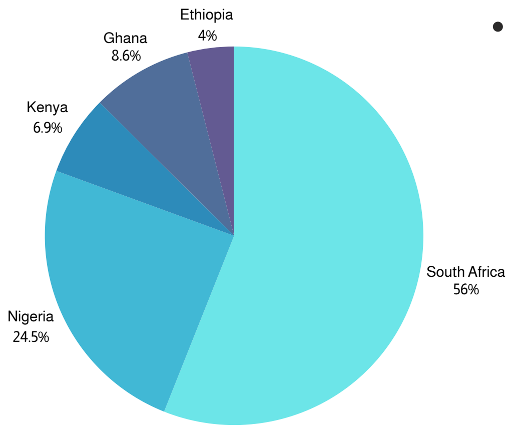
Trump 2.0 tariffs inject uncertainty into the world economy.

- Global trade volumes would reduce as rising costs reduce demand. The World Trade Organisation (WTO) warned that the new U.S. across-board tariff measures could cause an overall 1% contraction in world goods trade volume this year. The world economy as a whole tends to lose from proliferating tariffs.

- These tariffs undermine the WTO framework because they bypass WTO rules. Trump 2.0 tariffs can cause an ***erosion of confidence in the multilateral trading system***.
- It also influences global monetary policy and capital flows. Uncertainty and risk aversion lead to capital outflows and currency depreciation as investors seek safe havens.
- Increased market volatility. The announcement triggered widespread market turbulence as panicked investors sold off both stocks and U.S. Treasuries. Oil prices dropped sharply, with U.S. crude falling by 7.63%. Despite the 'pause' on the tariffs, markets are yet to recover, as there is still fear of impending damage.

- There are implications for the global shipping industry as tariffs redirect trade routes or reduce volumes as trade slows. Shipping rates and logistics patterns will tend to adjust to new flows.

Fig. 1: Top US Africa exports



> *Africa is not the target of the U.S. tariffs , but it is caught in the crossfire. From loss of trade preferences to commodity risks, Africa faces both a challenge and a wake-up call to strengthen regional integration via AfCFTA, diversify exports, and compete globally without reliance on preferential access.*

IMPLICATIONS FOR AFRICA

Many African countries rely on preferential access to the U.S. market under AGOA (African Growth and Opportunity Act), which granted duty-free treatment to thousands of African exports.

- African manufacturers who invested with AGOA preferences in mind are now at risk. Textiles, leather, and agro-processing exports from countries like Kenya, Ethiopia, Ghana, Lesotho, and Nigeria may now face 10–14% tariffs, rendering them uncompetitive. This could lead to job losses in export zones and industrial parks.

- Weaker Global Demand, Slower Growth: Tariffs may slow U.S. and global economic growth, dampening demand for African commodities like oil, metals, and agricultural exports.

IMPLICATIONS FOR NIGERIA

- U.S. tariff will hit Nigeria's small non-oil export sector hardest. Nigerian agricultural and manufacturing SMEs that have carved out a market in the U.S. now face a price disadvantage. Niche products like Nigerian cocoa butter, dried fruits, or textiles and apparels which entered the U.S. duty-free will become costlier and uncompetitive.

- Fertilizer makes up 2–3% of Nigeria's exports to the U.S. A 10-14% tariff on fertilizer could lead U.S. buyers to seek cheaper suppliers, thus Nigerian producers might lose that market or have to accept lower net prices.

- While crude oil is less likely to be directly impacted by the new tariffs, the broader uncertainty stemming from the ongoing trade war is likely to exert downward pressure on global oil prices, thereby affecting Nigeria's export revenues and fiscal stability.

- Indirect macro impact via oil prices: fall in oil prices due to slow global trade and economic uncertainty. This would further reduce Nigeria's export earnings and government revenue. A $10 drop in oil price, for example, costs Nigeria billions in export earnings.

- Fiscal and FX pressures: A decline in Nigeria's export earnings would reduce dollar inflows, placing pressure on the naira. In times of global uncertainty or trade wars, investors often retreat from riskier markets. As a result, Nigeria could face capital outflows, further currency depreciation, and rising inflationary pressures.

- Nigeria's budget is already stretched. A fall in oil revenue means less funding for infrastructure, education, and other public services – or alternatively, more borrowing to fill the gap. Government revenue could also be affected by non-oil exporters earning less (though their contribution is much smaller). The government does not collect export tariffs, but it gains through corporate taxes and royalties from oil companies and some levies on non-oil exports. Lower profits for exporters could reduce tax receipts.

- SMEs are particularly vulnerable. Many non-oil exporters are SMEs. SMEs might have to cut production or lay off workers if orders shrink. Furthermore, SMEs are less equipped to pivot to new markets quickly – they often lack the networks and certifications to immediately shift to Europe or Asia.

- Confidence: Nigeria is trying to attract foreign investment and increase exports – a hostile global trade climate makes that harder. Foreign investors might be concerned that Nigeria's growth prospects (tied to oil and export diversification) face new hurdles, possibly slowing investment into the country's non-oil sectors. Small businesses, which are the engine of job creation, stand to be the unseen casualties.

In sum, Nigeria's macro stability is at risk from a prolonged tariff war: possibly lower export revenue, a weaker currency, higher inflation, and strained government finances.

RECOMMENDATIONS

- Nigeria must view the U.S. tariff episode as a catalyst for structural transformation. The country's long-term economic resilience depends on industrialization and a strategic shift from raw commodity exports to value-added finished goods. To reduce vulnerability to external shocks, Nigeria must accelerate the diversification of both its economy and export base. Reducing over-reliance on crude oil is essential for macroeconomic stability and sustainable development. Priority growth sectors such as agro-processing, solid minerals, digital services, and manufacturing must be scaled through targeted investment, infrastructure development, and supportive policy frameworks.

- It is important to enhance access to quality infrastructure, affordable electricity, and digital tools for manufacturers. Additionally, development of Special Economic Zones (SEZs) and Export Processing Zones (EPZs) that will focus on finished goods production is a necessity, where internal source of inputs will be prioritized to reduce exposure to imported inflation.

- The need for government support is critical. Government must cushion Nigerian exporters through financial support such as export rebates, tax breaks, or low-interest loans to affected exporters to help them cope with the tariff's cost. Partnering with the Nigerian Export Promotion Council (NEPC) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) to identify new markets and build resilience among SMEs will be a right step.

- Government should fast-track the implementation of AfCFTA provisions. Remove hurdles for Nigerian firms to export regionally such as non-tariff barriers (simplify export documentation, improve transport infrastructure to ports and borders). Leverage AfCFTA further serve as regional alternative market for agro-, fertilizer, and industrial goods.

- In addition to multilateral efforts, Nigeria should pursue bilateral trade facilitation agreements and tariff reductions with high-potential trade partners. These negotiations can unlock new market access opportunities for Nigerian exporters, particularly in non-oil sectors, and reduce over-reliance on traditional markets like the United States.

- Since the current US tariff war was partly provoked by Nigeria's import bans, Nigeria should re-examine those restrictions. A smarter import policy might achieve the goal of boosting local production without blanket bans that antagonize partners. The government could replace outright bans with tariffs or quotas that are WTO-consistent, thereby addressing U.S. concerns.

- It will also be a good step for government to manage macroeconomic policy fallout. The Central Bank of Nigeria (CBN) should be ready to deploy measures to stabilize the naira if export inflows slow, essentially by coordinating a gradual adjustment of the exchange rate to avoid a sudden shock, curbing speculative demand for forex, and maintaining adequate foreign reserve buffers.

Additionally, CBN should continue to adopt FX management tools to mitigate arising shocks, while ensuring adequate FX liquidity for manufacturers and exporters.

- Fiscal authorities should engage in scenario-plan for lower oil revenue; this means reprioritizing expenditures and improving non-oil revenue collection to reduce reliance on oil. It is essential to accelerate current fiscal reforms which will serve as a form of revenue generation diversification should oil exports to the U.S. (or globally) decline

- A crucial step is to further pursue oil sector reforms (like the Petroleum Industry Act implementation) to increase efficiency and output. This will help Nigeria weather any price or market shifts by keeping production volumes and quality competitive globally.

- Private sector groups should collectively engage the government and U.S. counterparts. The Organized Private Sector in Nigeria (including the Lagos Chamber of Commerce, NESG, etc.) should compile data on how the tariffs and trade tensions are affecting Nigerian businesses. Armed with this evidence, they can present concrete policy proposals to the government, including measures such as temporary tax relief, export logistics support, and trade facilitation incentives to cushion the private sector and sustain competitiveness.

While the new U.S. trade tariffs and trade war may appear as a setback, they offer Nigeria and Africa a critical opportunity to reassess, restrategize, and reinforce our economic foundations. This disruption comes at a pivotal moment—when continental leaders are already calling for stronger African unity and deeper intra-African trade.

This should serve as a catalyst for the swift and strategic implementation of the **AfCFTA.** It is time for African leaders to galvanize collective action and advance toward a more integrated, self-reliant, and resilient economic future.

- **All graphs were compiled by the BACITI team using data from the National Bureau of Statistics, and the U.S. Bureau of Economic Analysis.**
- **Special thanks to Adesuwa O. Erediauwa (PhD) and Yinka Hammed (PhD) for their valuable contributions.**