Trump's Policy Playbook 2.0

Strategic Implications of US Reciprocal Tariffs for the Nigerian Economy and Way Forward

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Context Setting

The emergence of Donald Trump as the 45th President of the United States (US) marked a radical shift in American foreign policy. Anchored in the "America First" ideology, Trump's administration moved from traditional multilateral diplomacy to a more nationalist, transactional, and interest-driven approach. This repositioning affected longstanding US commitments across the globe, including those in Africa and Nigeria.

The first week of Trump's second term marked an aggressive tariff strategy aimed at shielding domestic industries and reducing reliance on foreign competitors. His administration implemented the largest import tax hikes in decades, imposing a 25 percent tariff on most goods from Canada and Mexico (with a 10 percent tariff on Canadian energy) and raising tariffs on Chinese imports by 10 percent.

Similarly, on April 2, 2025, President Donald Trump followed through on his tariff threats by announcing a 10 percent baseline tax on all imports into the United States, alongside higher tariff rates on countries running trade surpluses with the US. The elevated tariffs form part of a new policy approach he termed “reciprocal tariffs”. Under this framework, tariff rates are calculated based on the size of each country's bilateral trade surplus with the US, aiming to eliminate trade imbalances mathematically.

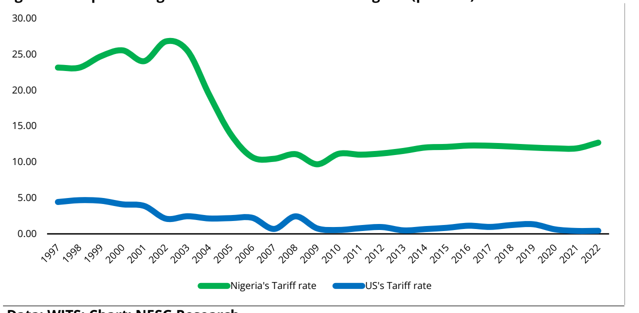
However, this formula-based approach has sparked intense debates worldwide among economists, scholars, and policy analysts. Critics argue that the policy is a mathematical gimmick that fails to reflect the complexities of global trade and is unlikely to produce balanced outcomes. In Nigeria's case, the US announced a 14 percent tariff, reflecting Nigeria's trade surplus with the US and its existing import duties on American goods, which the US estimated to be 27 percent.

Historically, the US's tariff on Nigeria's exports has been very low compared with the reverse case. According to the World Bank's World Integrated Trade Solution (WITS) data, Nigeria's simple average tariff rate on US exports was over 20 percent before the US government introduced the African Growth and Opportunity Act (AGOA) policy in 2000. It hit a record high of 26.9 percent in 2002 **(see Figure 1).**

Conversely, the US's simple average tariff rate on Nigeria's exports has been significantly low at less than 5 percent. It has consistently fallen since the inception of the AGOA policy, reaching an all-time low of 0.4 percent in 2021. In contrast, Nigeria's tariff on US exports was higher at 11.9 percent in the same year. This supports the US President's claims that the US bilateral trade has been disproportionately affected by a significant disparity in the bilateral tariff structure with the country's trading partners, thereby justifying the recent sweeping tariffs.

[1] See, https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices- that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/

Figure 1: Simple Average Tariff Rates in the US and Nigeria (percent)



Data: WITS; Chart: NESG Research

As a country heavily reliant on global partnerships in trade, security, public health, and development, Nigeria is vulnerable to the ripple effects of the US foreign policy changes. With shifts in US priorities such as reduced funding for foreign aid, redefined trade relationships, selective security engagement, and minimal focus on governance and democratic norms, Nigeria has to reassess its bilateral engagement strategy.

In our earlier Policy Brief titled **"TRUMP'S POLICY PLAYBOOK: STRATEGIC IMPLICATIONS FOR NIGERIA"**, we examined how the Trump administration's protectionist policies and broader trade actions will impact African economies, with Nigeria as the referenced case study.

In addition, the broader global realignment marked by declining US multilateralism and rising Chinese influence in Africa also created risks and opportunities for Nigeria's foreign policy and economic development trajectory. Therefore, understanding the implications of Trump's foreign policy changes is critical for Nigerian policymakers, business leaders, and development partners seeking to navigate an evolving geopolitical landscape. To this end, the current Policy Brief provides answers to four (4) key questions:

- How will the reciprocal tariff impact the trade flows between Nigeria and the US?
- What sectors will be affected by the new US tariff?
- How does the new US tariff impact Nigeria's key economic indicators?
- Aside from reciprocating the US tariffs, what other measures should the Nigerian government deploy to manage the aftermath of the tariff shock?

  This ultimately uncovers the key action points for the Nigerian government's consideration.

How will the tariff impact the trade flows between Nigeria and the US?

Between 2019 and 2023, the story of Nigeria's trade with the United States reflects a broader narrative of economic resilience amid global turbulence. In 2020, at the height of the COVID-19 pandemic, Nigeria's exports to the US plunged to US$1.1 billion, driven by lockdown-induced demand collapses and oil price crashes (see Table 1). In contrast, the US's imports into Nigeria held steady at US$5.0 billion, pushing up Nigeria's trade deficits with the US to nearly US$4 billion - its worst in recent history.

However, by 2022, a reversal began. As global demand picked up and oil prices rebounded, Nigeria's exports to the US surged to US$4.4 billion, shifting the trade balance into a US$1.0 billion surplus. By 2023, exports further increased to US$4.9 billion, suggesting gains in market access, higher commodity prices, or logistical improvements.

Table 1: Nigeria’s Trade Profile in relation to the US (US $' Billion)

Year	Exports	Imports	Trade Balance
2019	2.8	4.7	-1.9
2020	1.1	5.0	-3.9
2021	2.0	3.2	-1.2
2022	4.4	3.4	1.0
2023	4.9	4.0	0.9

Source: UN COMTRADE

Just as Nigeria reclaims its export strength, introducing a 14 percent US reciprocal tariff in April 2025 threatens to offset the recent gains. The tariff, imposed as part of President Trump's broader strategy to penalise trade-surplus countries, directly targets nations like Nigeria that enjoy positive trade balances with the US.

The impact will be sector-specific and elasticity-driven. Elastic products would face a drop in demand. US buyers may turn to cheaper alternatives, and Nigerian exporters will be forced to either lower prices—squeeze margins—or lose market share altogether. While Nigerian exporters may seek alternative markets, especially within Africa or Asia, these may not fully offset the loss of US demand.

Additionally, what was a narrative of trade optimism between 2021 and 2023 now faces a turning point. The 14 percent US tariff introduces a wave of policy uncertainty, risks reversing export momentum, and raises serious questions about the future of Nigeria-US trade relations, highlighting the urgent need for diversification, value addition, and strategic trade diplomacy.

What sectors will be affected by the new US tariff?

The reciprocal tariff on Nigerian exports is set to disrupt bilateral trade, with the scale of impact shaped by sectoral price elasticity of demand and the tariff pass-through effect. The oil and gas sector, which dominates Nigeria's exports to the US, faces moderate disruption due to the inelastic nature of global energy demand. However, in sectors like agriculture and textiles, where demand is more elastic, the tariff will likely cause a sharp decline in US demand for Nigerian products such as cocoa, sesame seeds, and apparel.

Reduced export volumes mean fewer foreign exchange inflows, which could widen Nigeria's current account deficit. As foreign receipts fall and demand for foreign currency persists, particularly for imports (with the US), the Naira may come under pressure. This imbalance will likely result in exchange rate depreciation unless offset by capital inflows or the CBN's foreign exchange (FX) intervention through external reserves depletion.

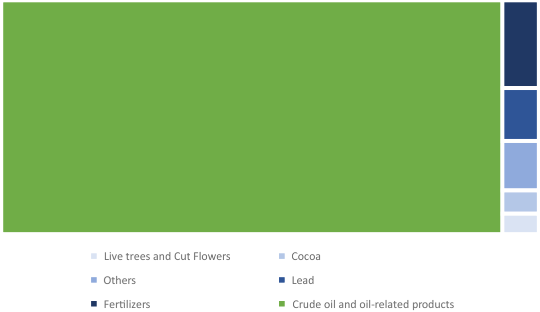
The pass-through effect will further determine outcomes. If Nigerian exporters absorb the tariff to maintain competitiveness, profit margins will shrink. However, if the cost is passed on to US buyers, demand will fall, leading to reduced export volumes.

The imposition of a 14 percent US tariff on Nigerian exports casts doubt over the future of the African Growth and Opportunity Act (AGOA), which has existed for two and a half decades. While AGOA was designed to provide duty-free access to the US for eligible African products, including Nigeria's non-oil exports such as textiles, leather, sesame, cocoa, and footwear, the new tariff undermines its core objective of preferential, non-reciprocal trade.

Many of these AGOA-covered sectors are highly price-sensitive, with high elasticity of demand. Even a modest tariff significantly erodes their competitiveness in the US market. For instance, Nigerian apparel and textiles, already struggling against Asian competition, may see export volumes decline. Similarly, agricultural exports like sesame and cocoa, which have thin margins, may face steep reductions in demand.

Nigeria's exports to the US are mainly concentrated and dominated by crude oil. According to the UN COMTRADE data, Nigeria's exports to the US were valued at US$4.9 billion in 2023, of which crude oil and other oil-related products accounted for 93.2 percent **(see Figure 2).** Among the top five export products were fertilisers, lead, cocoa and live trees.

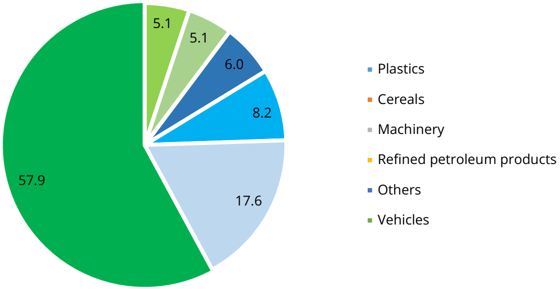
Figure 2: Contribution of Top Nigeria's Export Products to the US in 2023 (percent)



Data: UN COMTRADE; Chart: NESG Research

Moreover, unlike exports, Nigeria's imports from the US are less concentrated. The country's merchandise imports from the US, valued at US$4 billion in 2023, were dominated by vehicles, accounting for over 50 percent of the total imports **(see Figure 3)**. If Nigeria retaliates, key US exports such as machinery, pharmaceuticals, and aviation equipment could face higher duties, raising domestic production costs and weakening critical import-dependent sectors in Nigeria.

Figure 3: Contribution of Top Nigeria's Imports from the US in 2023 (percent)



Data: UN COMTRADE; Chart: NESG Research

Although AGOA technically remains in effect, the reciprocal tariff policy erodes its credibility. This development may prompt Nigeria to reassess its trade strategy, diversify its export base, and prioritise alternative markets under the African Continental Free Trade Area (AfCFTA) and other regional trade frameworks.

Overall, the tariff threatens to distort Nigeria's trade flows, particularly in energy, agriculture, and light manufacturing, with ripple effects on foreign exchange earnings, investment, and jobs. Nigeria may need to respond through market diversification, trade diplomacy, and industrial policy adjustments.

How does the new US tariff impact Nigeria's key economic indicators?

The recent reciprocal tariff imposed by the US government would significantly impact bilateral trade flows between the two countries. Hence, the new US tariff would impact key economic indicators, including exports, exchange rate, oil revenue, inflation and interest rate **(see Table 2)**.

Table 2: Impact of Bilateral Tariffs on Nigeria's Key Economic Indicators

Indicator	Impact Point
Exports (to the US)	The direct impact of the new US tariff on exports from Nigeria to the US is expected to be limited, as crude oil and gas, comprising approximately 90 percent of Nigeria's exports to the US, were notably exempted from the new duties. However, Nigeria's non-oil exports, such as agricultural products and manufactured goods, will likely face increased tariffs, potentially reducing their competitiveness in the US market.
Exchange rate	Crude oil and gas exports account for a substantial share of Nigeria's export earnings. A slowdown in global crude oil prices, triggered by increased trade tensions and uncertainties, could pose a significant risk to the nation's foreign exchange (FX) liquidity. This could exert upward pressure on the Naira, potentially leading to currency depreciation.
Oil Revenue	Disruptions in global supply chains due to the US sweeping and retaliatory tariffs across the board could weaken global economic growth, potentially lowering crude oil prices — a development that could affect oil revenues in Nigeria.
Inflation	The expected depreciation of the Naira, influenced by the US tariff policies and global uncertainties, is expected to increase the cost of imports in the short term. Given the pass-through effect of exchange rate depreciation on domestic prices, higher import costs are often passed on to consumers, potentially pushing up imported inflation in Nigeria.
Interest Rate	Higher inflation could prompt monetary tightening in the short term, resulting in higher interest rates. As inflation cools off over time, the CBN will ease monetary policy, leading to a decline in interest rates. However, the CBN will be cautious of expansionary monetary policy not leading to capital outflows, should foreign investors find foreign assets more profitable.

Policy Recommendation

While the US tariffs pose challenges for Nigerian exporters, they also allow the country to rethink its trade strategies. The government and private sector must work together to address infrastructure bottlenecks, support local manufacturing, and expand into new markets. This section addresses the question: Aside from reciprocating the US tariffs, what other measures should the Nigerian government deploy to manage the aftermath of the tariff shock? The key action points for the government's consideration are as follows:

- **Prioritising industrialisation:** Nigeria exports primarily crude oil and raw agricultural products with little value addition, effectively outsourcing jobs instead of creating employment locally. To address this, the government needs to support local value chain development across key sectors such as agro-processing and light manufacturing. This would complement efforts towards harnessing the private sector's job creation potential.
- **Rethinking trade strategies:** The US announced that Nigeria's 27 percent tariff on US products limits imports of goods from the US into Nigeria. These tariffs, including import duties, levies, excise taxes, and value-added tax (VAT), increase the overall cost of American exports to Nigeria. To reduce the risk of escalating trade tensions and potential retaliatory measures between Nigeria and the US, Nigeria needs to rethink and potentially lower import barriers, especially tariffs on goods for which it lacks sufficient local production capacity. This strategy would improve trade relations with the US.
- **Developing cross-border trade infrastructure to promote intra-African trade:** Since joining AfCFTA in 2019, Nigeria has yet to benefit from the African trade pact due to poor cross-border connectivity and logistics bottlenecks, all contributing to higher trade costs and redirecting trade towards other continents. Suspending AGOA should serve as an impetus for Nigeria to encourage non-oil exports – through infrastructure, providing export incentives, and ensuring products meet international standards – to expand into a diversified export market. Nigeria could take a cue from the success of countries that used AGOA to kick-start new sectors, such as Kenya's apparel or South Africa's automobile industry.
- **Renegotiating trade terms:** Nigeria should deepen its diplomatic relations with its major trading partners to avoid losing larger markets for its products. The government needs to revise its tariff regimes or negotiate new trade terms, seeking new bilateral trade relationships, which may unlock new opportunities for Nigerian investors. The country can adopt selective tariffs depending on the degree of sectoral vulnerability to external trade.
- **Reduce overreliance on imported refined petroleum products:** Mineral fuel (including petrol) imports account for at least 30 percent of Nigeria's import bills per annum. Hence, ongoing efforts to revitalise the state-owned refineries should be strengthened to improve local oil refining. Substantial investments in the downstream oil and gas sector are needed to make it more competitive globally. This would further reduce the reliance on imported fuel products, boost FX savings and taper the pressure on the FX market.

ABOUT THE NESG

The NESG is an independent, non-partisan, non-sectarian organisation, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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