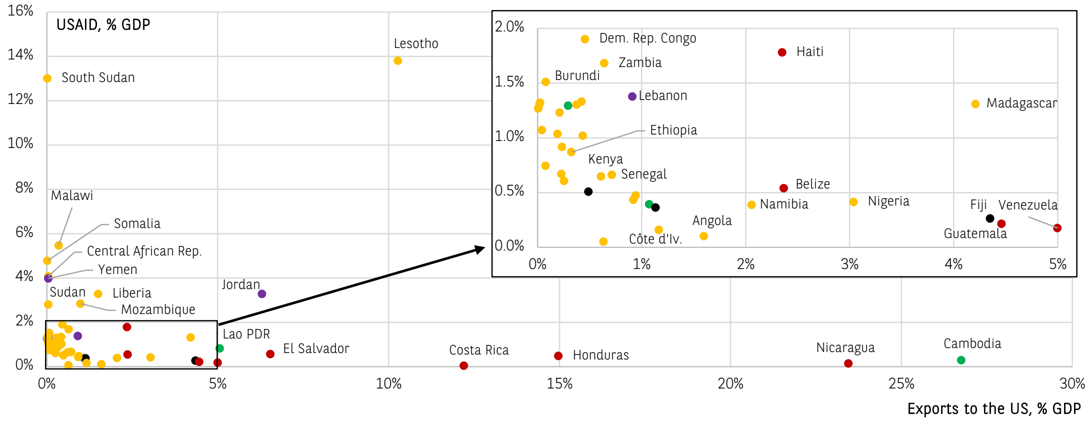
CHART OF THE WEEK

7 May 2025

END OF USAID AND TRADE WAR: A DOUBLE SHOCK FOR DEVELOPING COUNTRIES

Since January 2025, the United States has announced major reversals in its foreign and trade policies. For developing countries that depend on international aid, the suspension of USAID[1] and the increase in tariffs on US imports create a double shock that will durably weaken their economic prospects.

DEVELOPING COUNTRIES: EXPORTS TO THE US AND USAID INFLOWS



SOURCE: UNCOMTRADE, FOREIGNASSISTANCE.GOV, IMF

The developing countries of Central America are particularly vulnerable, more so than the average Latin American country[2]. Their exports to the United States account for a large proportion of their GDP (*see chart*), particularly steel, aluminium and car parts (tariffs of 25%). These countries could, however, offer to tighten their migration policies and fight drug trafficking more effectively in order to obtain more advantageous customs tariffs.

Sub-Saharan Africa is doubly exposed. The region is the largest recipient of USAID flows, both in current dollars and as a proportion of GDP: in 2024, they amounted to 0.7% of GDP on average. The interruption of USAID will considerably worsen the region's health, security and economic prospects. **Sub-Saharan Africa is also vulnerable to the slowdown in world trade.** At first glance, the direct impact of a uniform 10% US tariff may seem limited. Only 5% of the region's exports are destined for the United States, and most of these are raw materials exempt from customs duties. However, with the end of the AGOA[3], 32 African countries have lost preferential access to the US market for many goods. Among these countries, Lesotho is by far the most vulnerable, given the high proportion of its exports, particularly textiles, to the United States. To a lesser extent, Kenya and Madagascar are in a similar situation. In addition, countries exporting raw materials (with the exception of gold) are likely to face a slowdown in global demand and falling prices. Angola, Nigeria and the CEMAC region are particularly vulnerable.

Sub-Saharan Africa has very limited room for manoeuvre. The region does not have the capacity to increase its imports from the United States with a view to reducing a trade surplus that is very meagre in any case (USD 11.3 billion in 2024, or 0.04% of US GDP). There is little or no budgetary leeway to increase spending to replace USAID. Finally, ability of central banks to ease monetary policy is also limited: inflationary pressures remain high (regional inflation accelerated to 18.3% in 2024) and public debts are exposed to exchange rate risk.

1 United States Agency for International Development
2 See Chart of the Week Latin America: how vulnerable is it beyond tariffs?
3 African Growth and Opportunity Act

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