
# POLICY BRIEF

## IMPLICATIONS OF US TARIFFS ON COMESA

### A Game-Theoretic Approach to Trade Negotiations

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## Background

On 2nd April 2025, the US Government announced sweeping tariff changes, dubbed ***Liberation Day Tariffs***, to address trade deficits and revive domestic manufacturing and industrial sectors. The changes triggered massive reactions across the globe with many pundits alleging an onset of a new world order. According to ***section three, of the Executive Order,*** the new policy introduces two sets of tariffs applicable to different groups of countries: a general or base tariff and a reciprocal tariff linked to the US trade deficit with individual US trading partners. The general tariff, set at 10% would be applied to imports from all countries (except Canada and Mexico) starting on 5th April 2025. Before long and following global backlashes, President Donald Trump announced on Wednesday 9th April 2025, that he would temporarily suspend tariffs for most countries for a period of 90 days, while simultaneously increasing the tax rate on Chinese imports to 125%.

The US action was allegedly driven by unfair trading practices by trade partners, particularly China and the European Union (EU) and the increasing pressure to re-balance widening trade deficits. The latter depressed the stock markets and reduced the growth of investments in the economy thereby depressing growth and development. Apparently, these factors define Trump's campaign slogan *Make America Great Again (MAGA)* which led to his victory during the most recent elections. The long-term effect of the imposed tariffs is yet to be determined as the newly elected President's trade policy comes into force.

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Whereas the US action is largely construed as being ill – informed and erratic, we argue that this is rather a well-orchestrated strategy grounded on *Game Theory* following seminal work by *John Von Neumann and Oskar Morgenstern* [(1944)[4].

***Game Theory and Practice***

In international trade and specifically trade negotiations, game theory analyses situations in which each agent's well-being depends not only on her actions but also on the actions of its opponents[5]. In this case, the players are individual countries or groups of countries but every country that is part of it share the same interest. Game theory is applicable in a variety of other fields - economics, political science, biology, computer science, wars and everyday decision-making. Literature further indicates that game theory relies on three key assumptions: each player is rational, there are strategic interactions and utility maximizing payoffs[6]. Thus, given any situation, each player acts in a rational fashion or exercises selfish interest and will try to use best strategies to maximize their payoffs. In trade negotiations, trade policy instruments are converted into strategies. When a tariff spiral between two countries or groups of countries takes place, it can be defined as a trade war, the countries will implement protectionist policies to hurt one another and thus implement trade tariffs against each other.[7] Generally, the framework helps understand how negotiating parties make offers and counter offers and choose strategies to maximize their own welfare while considering the reactions of the other negotiating parties. Finally, game theory applies mathematical models to better understand strategic choices that depend on the decisions of others and includes principles like tit-for-tat strategies.

The US made the first move by increasing tariffs on imported products from various trading partners. The move followed a credible commitment doctrine in game theory to strategically destabilise the existing tariff equilibria and induce trading partners to reconsider their tariff interaction with the US while conducting trade. Before long the tariffs were suspended for 90 days, in a strategic move to signal readiness to negotiate or giving the rest of world time to recalibrate and engage in negotiations with US government. All these actions were happening in total defiance of the World Trade Organizations (WTO) principles, rules and regulations. The big question is, why such an action given that the US is not just a founder member of the WTO, but has played a

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4 Theory of Games and Economic Behaviour' (1944)

5 https://tesi.luiss.it/31642/1/230441_ALTIERI_CAMILLA.pdf

6 John Von Neumann and Oskar Morgenstern [(1944) 'The Theory of Games and Economic Behaviour.'

7 https://tesi.luiss.it/31642/1/230441_ALTIERI_CAMILLA.pdf. Accessed on 14th April 2025.

leading role in creating its rule-based trading system? While some countries or groups of countries have reacted by threatening to or imposing retaliatory tariffs (China and the EU), others have moved to reduce their tariffs to appease the opponent, and the third group adopted a wait-and-see attitude. To prove our point right, those who retaliated were punished with additional tariff measures (like the case of China) in the bid to compel them to toe the line. This strategy to impose punitive measures against non-cooperative players is commonly referred to as *coercive bargaining* in game theory literature.

## Potential Impacts of the US Tariff Wars

The US tariff policy measures have brought uncertainties in trade and investments and volatility of financial markets in both the US and the rest of the world. Besides, many economies would certainly face financial pains, worsening the already unbearable debt burden in poor economies and straining capacities of multilateral bodies – World Bank, International Monetary Fund (IMF), and the United Nations among others.

Basically, the tariff measures would result into lowering demand and competitive production, increasing costs of production, disrupting value chains and ultimately impoverish millions of people across the world, the US itself included. In Africa, 29 countries will face the "baseline" 10 percent tariff, while 22 other countries will face tariffs up to a whopping 50 percent for almost all their exports to the US, excluding a short list of products such as certain critical minerals deemed necessary to the US economy. Lesotho will be the most affected African country facing a 50 percent tariff. Table 1 presents the base and reciprocal tariffs for COMESA Member States. Eight COMESA Member States are facing the reciprocal tariffs as follows: Democratic Republic of Congo (11%); Libya (31%); Madagascar (47%); Malawi (17%); Mauritius (40%); Tunisia (28%); Zambia (17%); and Zimbabwe (18%).

**Table 1: Base and Reciprocal Tariffs for COMESA Member States**

| Country | Base Tariff | Reciprocal Tariff |
|---|---|---|
| Burundi | 10% | - |
| Comoros | 10% | - |
| Congo DR | 10% | 11% |
| Djibouti | 10% | - |
| Egypt | 10% | - |
| Eritrea | 10% | - |
| Eswatini (Swaziland) | 10% | - |
| Ethiopia | 10% | - |
| Kenya | 10% | - |
| Libya | 10% | 31% |
| Madagascar | 10% | 47% |
| Malawi | 10% | 17% |
| Mauritius | 10% | 40% |
| Rwanda | 10% | - |
| Seychelles | 10% | - |
| Somalia | 10% | - |
| Sudan | 10% | - |
| Tunisia | 10% | 28% |
| Uganda | 10% | - |
| Zambia | 10% | 17% |
| Zimbabwe | 10% | 18% |

COMESA's export and import market share in the US ranged from 3% to 4% and 4% to 5% respectively for the period 2019-2023. Though not a major trading partner for

COMESA as a region, the high reciprocal tariffs will induce both supply and demand shocks. The tariffs are likely to cause high cost of production and consumer prices in the US. It is estimated that the US will be hardest hit by the new tariffs and retaliatory tariffs by other countries, with a GDP reduction of 1.45%. Contraction of the US economy will lead to depressed demand for COMESA exports for example, Kenyan textile products and Zambian copper would be relatively highly priced in the United States market, whilst at the same time prices of capital goods from the US will be expected to go up.

Secondly, US-Africa trade has largely been shaped by the African Growth and Opportunity Act (AGOA, 2000)[8], which granted preferential access at zero tariffs for thousands of products to the US market from qualifying African countries, reflecting their relatively lower development levels. The new tariffs therefore signal a huge blow to AGOA, an exceptional trade policy many non-African countries had accepted at the World Trade Organization (WTO). Ironically, AGOA was granted at the request of the United States government. With the future of AGOA hanging in the balance, the overall impact of this about-turn in trade policy by the United States could directly lead to production cuts and massive job losses in African countries. Thirty-five African countries are currently eligible for AGOA, among them are ten COMESA Member States namely, Comoros, Democratic Republic of Congo, Djibouti, Eswatini, Kenya, Madagascar, Malawi, Mauritius, Rwanda (AGOA Apparel benefits suspended effective 31st July 2018), and Zambia.

COMESA's trade to US under AGOA for 2023 and 2024 is presented in Table 2. Leading exporters to US included, Kenya, Madagascar, Democratic Republic of Congo, and Mauritius. The importance of US AGOA is evident in the fact that Madagascar exported 4.6 times more to the US AGOA market relative to what it exported to the COMESA market in 2023 as shown in the 6th column of Table 2. In addition, Table 2 shows that proportions of exports to US under AGOA relative to exports to COMESA in 2023 were: Mauritius (30%), Kenya (23%), Malawi (18%), DRC (14.5%), Eswatini (12%), Uganda (1.6%), Zambia (1.03%), Djibouti (0.44%), and Rwanda (0.4%). Based on the degree of dependency and the imposed tariff, *ceteris paribus*, it is anticipated that Madagascar, Mauritius, and Malawi, would be the most affected countries. This situation calls for collective Africa to push for continuation of AGOA under preferential terms.

8 The African Growth and Opportunity Act (AGOA) is a United States Trade Act, enacted on 18 May 2000 as Public Law 106 of the 200th Congress. The AGOA legislation has been renewed on different occasions, most recently in 2015, when its period of validity was extended to September 2025.

**Table 2: COMESA Trade with US under AGOA**

| Country | Exports to COMESA in 2023 (US$1000) | Exports to US under AGOA 2023 (US$1000) | Exports to US under AGOA 2024 (US$1000) | AGOA Exports as percentage of COMESA Exports: 2023 data |
|---|---|---|---|---|
| Comoros | 1942.977068 | - | 72 | 0 |
| Congo DR | 544424.0238 | 78770 | 286796 | 14.5% |
| Djibouti | 197274.4704 | 872 | 191 | 0.44% |
| Eswatini | 224943.9385 | 27119 | 17829 | 12% |
| Kenya | 2184094.864 | 509198 | 575128 | 23% |
| Madagascar | 74113.85184 | 338556 | 351349 | 456.80% |
| Malawi | 161148.1899 | 28871 | 29046 | 18% |
| Mauritius | 217945.5933 | 65115 | 65119 | 30% |
| Rwanda | 981757.69 | 4160 | 1475 | 0.42% |
| Uganda | 922501.8632 | 14892 | - | 1.6% |
| Zambia | 2197439.745 | 22737 | 28792 | 1.03% |

*Source: Data on exports to COMESA was extracted from COMSTAT and exports data to US under AGOA was accessed from an official website of the United States government: https://dataweb.usitc.gov/trade-data-reports/sub-saharan-africa/trade-data/total-gsp-agoa-import-suppliers*

Thirdly, the other indirect impact could arise from the ripple effects should other leading countries and regions, such as the China and European Union follow suit with retaliatory measures as current signs already indicate. Since higher tariffs equally affect exports depending on the demand elasticity of different goods and imported inputs and intermediate products, higher prices will dampen consumer demand and slow down global economic growth-a zero sum game outcome. The EU and China are COMESA's top export and import markets. EU and China's export market share in COMESA ranged between 24% to 40% and 9% and 13% respectively in the period 2019-2023. The import market share ranged between 21% and 23% and 16% to 19%

for the EU and China respectively for the same period. EU and China are facing an imposed tariff of 20% and 125%. China has responded with retaliatory tariffs and measures including 84% tariff on all US goods entering China and blacklisting of 18 US companies while EU has said that it will retaliate. Estimates show that the new US tariffs and retaliatory tariffs from other countries will reduce global GDP by 0.43%, EU (0.05%) and China (0.43%)[9]. Reduction in global GDP will generally impact on demand for COMESA exports given that about 90% of its trade is extra-COMESA. The reduced GDP in EU and China will result in decreased demand for COMESA exports. This may also affect COMESA's production capacity since the two countries are the major import origin markets especially for capital goods.

## Conclusions and Some Suggestions

There is no doubt that the US government has once again tested the powers and stability of the world trading system through the game theoretic approach. The rest of the world can decide to or not to respect the WTO rules and regulations even if the US chooses effectively to opt out. The move by the US government amounts to an assault on the rule-based global trading system and it exhibits growing appetite for protectionism and bilateral negotiations with individual countries leveraging on their economic sizes. So far, apart from the retaliatory actions by the big economies – China and the European Union, the rest of the WTO members appear vulnerable to the US threats. The majority of the Africa group have relied on the unilateral AGOA tariff preferences to lay foundations of building their economies. Yet African countries also have the opportunity to actively participate in this game through cooperative frameworks as defined by regional economic blocs as articulated in the Treaty establishing the African Economic Community signed in Abuja, Nigeria, on 3 June 1991. Consequently, this brief makes the following suggestions.

### *1. Adoption of a variable cooperative game strategy*

Nothing stops the COMESA bloc or indeed the wider Africa bloc , from being active players in the on-going global tariff war through the variable cooperative strategy. This they can do by actively communicating and making binding agreements with the US, EU, China and other like-minded groups of countries. African countries have a strong endowment of critical minerals which can be a bargaining chip. At least 24 African countries are greatly endowed with mineral resources which account for over

9 Winchester, N. (2025, April 3). New Modelling Reveals Full Impact of Trump's 'Liberation Day' Tariffs – with the US hit hardest. The Conversation. https://theconversation.com/new-modelling-reveals-full-impact-of-trumps-liberation-day-tariffs-with-the-us-hit-hardest-253320

75 percent of their export earnings. Besides, as the new tariffs are set to hit US firms in the automotive, aerospace, and chemical sectors, which are heavily dependent on critical minerals, the bulk of which are from Africa, it is not in the US interest in the medium to long-term to impose tariffs on African goods.

### *2. The African Union Commission to directly hold negotiations with the US government and other major trading partners on the ensuing tariff wars*

African countries should collectively engage the US government in making a strong case for a new trade preference for Africa. Just like Canada and Mexico were exempt from the reciprocal tariffs due to the US's national interest, a similar case can be made for Africa in terms of market access and critical minerals supply chain security. Furthermore, Africa should work towards diversifying its production and export markets and expand market access by actively pursuing new trade partnerships including BRICS, Gulf States, Mercosur region, Japan, South Korea, and India among others.

Similarly, the African Union Commission should seek to demonstrate that preferential trade within the continent is also a strategic move to make in this game. The US should support preferential access for African goods to its market as a market-building strategy. Furthermore, Africa's endowment in human resources can not be overlooked. It is expected to be home to over 25 percent of the global population of young people in the next few decades and presents a huge opportunity for enhancing production.

### *3. A strong case for protection of a rule-based world trading system*

The maintenance of the credibility and effectiveness of a rule-based WTO is more critical than ever in the wake of rising protectionism. A fair and transparent trading system would result into a win-win situation for all and effectively contribute towards improved global welfare. In particular, there is need to expedite reforms, relating to dispute settlements which cause frustrations amongst WTO Member States, breed protectionist attitudes and encourage unfair trading practices. The restoration of the full functionality of the WTO's Dispute Settlement Body, particularly the Appellate Body is essential to ensure the timely, and impartial resolution of disputes. It is equally important to re-think how multilateral, continental and regional trading arrangements can be empowered to deal with individual country decisions that violate their commitments under such arrangements.

### *4. Consolidation and strengthening continental/ regional economic integration*

The ever-changing and the recent trade policy shifts make a compelling case for COMESA and Africa to strengthen integration and avoid accommodative or retaliatory reactions. Under the real of the Abuja Treaty (1991), it is time to consolidate an African-US Strategy marshalling a continental approach to boost intra-African trade and investments, develop regional value chains, and reduce dependency on external markets. Additionally, increasing efforts by African financial institutions to build physical infrastructures, including roads, railways, and airports to enhance connectivity and diversify power sources for sustainable industrial development.

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