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GA 2: Economic and Financial Committee (ECOFIN)

Research Report

Topic 1: Considering the effects of US trade tariffs on global economic growth and development



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Introduction

Tariffs are an important international policy tool. They have been used throughout history to assure the protection of aging and emerging industries so as to allow them to re-enter the market. However, after the United States President Donald Trump's re-election in November 2024, tariffs have been used for strategy, national security, leverage, and political gains. The increasing tariffs throughout 2025 could lead to a decline of global economic growth and development.

Definition of Key Terms

Tariffs: Border tax on imported goods to protect domestic industries and promote government revenue. This protectionist policy can be used in a punitive manner, by putting severe tax in place to punish certain nations that are perceived to have violated laws or agreements. Moreover, these policies can equally be used for retaliation, in response to a second countries' tariffs, thus serving as a punitive measure in international trade relations.

Discriminatory Taxes: A type of tax imposed on particular companies or products, for example, products from foreign countries, that is intended to make it easier for other companies to compete.

Tariff Exceptions: A country may make a request to the country putting tariffs in place in order to be excluded from paying customs duty on a specific category of goods. However, the request must be granted by the country setting the tariffs.

Duties: A type of tax placed on goods entering or leaving a country, while taxes are placed on almost all purchases. Duties target specific items or transactions.

Ad Valorem Duty: A type of import duty or tax calculated based on the value of the goods being imported.

Tariff Concessions: The reduction or elimination of customs duties on imports by a country as part of trade negotiations or agreements. These concessions are often negotiated in international forums to facilitate greater trade between countries by making goods cheaper to import.

Background Information

January 20, 2025: The United States administration issued the first of its many trade measures called the America First Trade Policy (AFTP). This new trade policy prioritises U.S.'s economic interests, national security, and industrial competitiveness by reducing its trade deficit with the use of higher import tariffs. However, this policy carries hard implications for Least Developed Countries as well as small and vulnerable economies in terms of their participation in international trade, and access to the United States' market.

February 13, 2025: The Presidential Memorandum on “Reciprocal Trade and Tariffs” introduced the “Fair and Reciprocal Plan”, which tries to settle the equivalent of a reciprocal tariff for each trading partner. This plan created a country-specific approach to “reciprocal tariffs” as it drew back from the Most Favoured Nation (MFN) tariff system under the World Trade Organization (WTO). The Memorandum on “Reciprocal trade and Tariffs” called for a review of the “non-reciprocal trading relationships” with all United States trading partners. This includes examining the tariffs placed on U.S. products in foreign markets, non-tariff barriers, and so-called “discriminatory taxes”.

March 1, 2025: The United States administration reinstated Section 232 tariffs on all steel imports and increased the aluminium tariff from 10% to 25%, with no exceptions. However, several countries including Argentina, Australia, Brazil, Canada, Japan, Mexico, the Republic of Korea, the European Union, Ukraine, and the United Kingdom had previously received exceptions to the Section 232 tariff¹.

¹ The Section 232 tariffs of 25 per on steel and aluminum will not be subjected to the additional reciprocal tariffs launched on April 5, 2025.

March 24, 2025: Under the Section 301 and the International Emergency Economic Powers Act (IEEPA)² of the United States Trade Act of 1974, President Trump announced a 25% tariff on all goods from any countries importing Venezuelan oil, either directly or indirectly. These tariffs will be in addition to any tariffs already in motion under the IEEPA, Section 232 of the Trade Expansion of 1962, or Section 301 of the Trade Act of 1974.

April 2, 2025: Under the IEEPA, the National Emergencies Act, Section 301 and Section 604 of the Trade Act of 1974, the United States declared a national emergency due to the number of imports vastly exceeding that of exports. The United States identified the rebalancing of trade flows as a primary goal and it would be achieved with an additional ad valorem duty on all imports from all trading partners. However, the Executive Order provides a unique exception for articles that contain at least 20% of United States content by value. If an article contains more than 20% of United States content, the tariff will only be applied to the remaining non-United States content. This will be verified by the United States Customs and Border Protection (CBP).

April 3, 2025: All automobile and auto parts (starting May 3rd, 2025) are subjected to a 25% duties based on Section 232. For automobiles from Mexico or Canada, the value of the content of U.S. originating parts will be deducted from the 25% tariff to be paid. Therefore, Canada and Mexico may face a reduced import duty.

April 5, 2025: A 10% additional ad valorem duty to imports in the United States is applied with the exception of the products included in the Annex II of the April 2, 2025, Executive Order.

² The IEEPA, enacted in 1977, is a U.S. federal law that grants the President authority to regulate economic transactions during a declared national emergency in response to an unusual and extraordinary threat originating outside of the United States.

April 9, 2025: Additional country-specific tariffs become effective. These tariffs ranged from 11% for Cameroon, to 50% for Lesotho. Furthermore, President Trump announced a “90-day pause, and a substantially lowered Reciprocal Tariff during this period, of 10%, also effective immediately.” This period goes from April 9, 2025, to July 8, 2025. For Canada and Mexico, imports that comply with the US- Mexico- Canada Agreement (USMCA) rules of origin continue to face duty free treatment. However, goods that do not apply will face a 12% reciprocal tariff. Additionally, Energy products from Canada will face a 10% import duty. Products listed in the Annex II of the April 2025 Executive Order are exempt from the reciprocal tariffs.

The new overall effective U.S. Tariff rate, now an estimated 19.5%, the highest yet since 1933, has slowed economic activity. As a result of these tariffs, the global growth is set to slow to 2.9% in 2026.

Major Countries and Organisations

UNCTAD: Through multiple reports and statements, the United Nations Conference on Trade and Development (UNCTAD) has called for exemptions and provided detailed policy analysis of the US tariffs since their start in January 2025³.

The United States of America: Although President Trump put these tariffs in motion, the United States’ economy is set to slow to 1.5% in 2026, compared to its 1.8% in 2025 and 2.8% in 2024. Prices on imported goods have also increased by 6.6% since the beginning of 2025.

Canada: As one of the United States’ largest trading partners, Canada’s export-dependent economy is hit particularly hard by the U.S. tariffs. The tariffs could have severe consequences on Canada’s economy with the increasing risk of the reduction of exports, a slower GDP growth, as well as job losses in key industries. Economic projections suggest that Canada will see slower growth and higher consumer prices in the upcoming years.

³ See UNCTAD Global Tariff Update.

Mexico: Similarly to Canada, Mexico is one of the United States' largest trading partners and suffers the same consequences as Canada. However, unlike Canada, economic projections suggest that Mexico will see sharply lowered growth in the upcoming years.

European Union: Europe is expected to grow more slowly, with a forecast of only 1% in 2026 compared to 1.2% in 2025. EU exports, such as automobiles and pharmaceuticals, face new U.S. tariffs affecting several EU economies ranging from modest to material depending on the tariff level and retaliatory tariffs. Countries like Germany, for automobiles, Ireland, for pharmaceuticals, and Italy, for manufacturing, are among the most exposed to the U.S. tariffs.

China: China's exports to the United States have been particularly exposed to high tariffs perturbing its routine trade flows. Growth projections have diminished compared to the pre-tariff expectations. The IMF and other forecasters see China's GDP reduced from around 5% to 4%. The trade war between China and the U.S. formally began in 2018, during the first Trump administration. A series of increasing tariffs led to the U.S. imposing a 145% tariff on Chinese goods, which led to China implementing a 125% tariff on American goods as of 2025. These measures are set to cause a 0.2% loss of global merchandise trade.

The United Kingdom: Tariff impact studies suggest that the U.K. could see slower growth due to higher U.S. tariffs on cars, aluminium, and steel imports.

Previous Attempts to Address the Issue

Although there have been no UN resolutions put in place concerning the US trade tariffs of 2025, there have been other attempts to address the issue such as:

Tariff pauses and negotiations: 90-day pause with trading partners, with the exception of China, for negotiations and trade deals.

Bilateral talks with EU, India, and others: Europe and the US engaged in trade negotiations to avoid further escalation. India and other nations engaged in talks to mitigate tariff impact.

Framework Agreements: Framework for a proposed US- EU trade agreement (“Agreement on Reciprocal, Fair, and balanced trade”) to mitigate tariff impact.

Action and countermeasures by US trading partners: The European Commission conducted a public consultation on countermeasures and prepared WTO litigation to pressure the US tariffs to be challenged or rolled back. Additionally, Canada responded with retaliatory tariffs on US goods thereby adding pressure for resolution. Moreover, several of the United States’ trading partners either threatened or filed WTO disputes against the tariffs, stating they violate WTO rules.

Diplomatic and economic responses: India pursued new trade agreements with Oman and other countries to create alternative export markets as well as minimising the United States tariffs’ impact. Earlier in 2025 the EU considered tariff concessions to reduce U.S retaliatory measures.

Bilateral trade agreements: After the trade war between the U.S and China in 2018, these two countries created the “Economic and Trade Agreement between the United States of America and the People’s Republic of China” on the 15th of January, 2020. This agreement enabled the United States to modify its Section 301 tariff actions imposed on China in early 2018. Although these measures took place before the second Trump administration, bilateral trade agreements could possibly lessen the impact of the trade tariffs on the countries willing to negotiate with the United States.

Possible Solutions

Exemptions for Least Developed Countries following the UNCTAD proposal to prevent disproportionate harm, to preserve development gains, as well as assure minimal cost to tariff revenue.

Bilateral or plurilateral negotiations with the United States to reduce or eliminate tariffs.

The creation of a Retaliation De-escalation Agreement assuring the removal of retaliatory tariffs by all countries involved.

Creating and maintaining, especially for Least Developed Countries, a supply-chain diversification to reduce vulnerability to tariffs.

The creation of new trade agreements, not with the United States, to create alternative export markets. As a result, this would limit the countries' exposure and vulnerability to tariffs.

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