The Impact of the US Government's Tariffs on Latin America: Economic Theory vs. Geopolitical Reality

By: Billy Marlin CFE, CBA
bmarlin@veritasap.com
Executive Partner
Veritas Assurance Partners, LLC
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The Trump administration's recent tariff measures have created significant waves across Latin America's economic landscape. As of April 2025, most Latin American countries face a baseline 10% tariff on exports to the United States, with notable exceptions for Guyana (initially 38%), Nicaragua (18%), and Venezuela (15%), though these higher rates were paused for 90 days. Mexico operates under a different tariff structure, with a 25% rate implemented in March but with significant exemptions under the United States-Mexico-Canada Agreement[1], ('USMCA').

These tariffs represent a fundamental shift in U.S. trade policy, described by President Trump as necessary to address "the national emergency posed by the large and persistent trade deficit" and to pursue reciprocal trade relationships. The administration justifies these measures as protecting American workers and domestic manufacturing while reducing reliance on foreign supply chains.

This briefing is a compilation of our investigative research that utilized multiple authoritative sources of information on this topic. Furthermore, our analysis of the results discusses the direct and indirect effects of the tariffs in Latin America and their immediate potential economic and geopolitical consequences in the region.

[1] The United States-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020. The USMCA, which substituted the North America Free Trade Agreement (NAFTA) is a mutually beneficial win for North American workers, farmers, ranchers, and businesses. The intended purpose of the agreement is to create a more balanced, reciprocal trade supporting high-paying jobs for Americans and grow the North American economy.

Country-Specific Impacts

Mexico: Complex Adjustments and Partial Exemptions

Mexico's situation is particularly nuanced due to its deep economic integration with the U.S. through USMCA:

- The 25% tariff on Mexican exports was modified to exclude USMCA-compliant goods, reducing the effective average tariff to approximately 10.5%.
- Automotive exports face tariffs only on foreign content from outside North America, maintaining some competitive advantage against Asian markets.
- Ongoing negotiations seek exemptions for steel, aluminum, and automotive imports.
- Economists estimate the weighted tariff for motor vehicles crossing from Mexico to the U.S. rose from 0.6% to 6%.

Despite these adjustments, Mexico's open economy (trade-to-GDP ratio of 73%) and reliance on U.S.-bound exports (80% of total exports) makes it vulnerable to secondary effects from any U.S. economic slowdown.

Venezuela: Compounding Crises

Venezuela faces particularly severe challenges:

- Initial 15% tariff (later paused to 10%) combined with existing U.S. oil sanctions.
- Secondary tariffs of 25% on countries importing Venezuelan oil threaten vital revenue streams from China, India, Spain and Italy.
- Projected to turn Venezuela's 2025 GDP growth forecast into contraction.

> ***VAP Insight:***
> - *Likely responses include increased black-market oil sales to China at discounted prices and concessions on migration policies.*
> - *Black and Grey market schemes intended to evade tariffs may impose a challenge to maintaining an accurate inventory of the true origin of materials in the manufacturing supply chain.*

Brazil and Argentina: Mixed Prospects

As Mercosur members, Brazil and Argentina present interesting case studies:

Brazil:

- Subject to baseline 10% tariff with no immediate countermeasures planned.
- May benefit from trade diversion as China shifts agricultural purchases from U.S. to Brazilian suppliers (as occurred during Trump's first term).
- Coffee exports could gain advantage over Vietnamese and Indonesian competitors facing higher U.S. tariffs (46% and 32% respectively).
- Footwear industry may capture market share from Chinese producers facing 145% tariffs.

Argentina:

- President Milei's alignment with Trump reduces likelihood of confrontation.
- Negotiating trade deal to reduce tariffs on approximately 50 Argentine products, primarily agricultural and fishing goods.
- Hydrocarbon exports (25% of U.S.-bound exports) remain tariff-exempt.

Chile, Colombia, and Peru: Limited Direct Impact

Countries with existing U.S. free trade agreements experience milder effects:

- Primary exports (copper for Chile/Peru, oil for Colombia) remain tariff-exempt during review period.
- GDP growth forecasts maintained for 2025.
- Likely to negotiate through institutional FTA channels rather than retaliate.
- Chile already pursuing diversification through agreements with India for copper exports.

Other Impacts Across the Region

Commodities and Raw Materials

Latin America's commodity-dependent economies face mixed prospects:

- Copper prices hit 17-month lows in April, threatening Chile and Peru.
- Steel and aluminum tariffs (25%) affect Brazilian and Argentine producers.
- Potential for agricultural export growth to China as U.S. products face Chinese retaliation.
- Oil exporters (Brazil, Mexico, Colombia) face softening global prices.

Manufacturing and Value Chains

- Mexican electronic goods (37% local content) face higher tariff burdens than automotive.
- Brazilian footwear and manufactured goods may gain U.S. market share from Asian competitors.
- Regional auto sector faces uncertainty, particularly for non-USMCA compliant supply chains.

Strategic Responses and Long-Term Implications

Negotiation vs. Retaliation

Most Latin American governments have adopted cautious approaches:

- No countries have announced countermeasures as of June 2025.
- Likely to offer concessions on security (migration control, drug trafficking) rather than reciprocal tariffs.
- Resource-rich nations may offer investment opportunities in mining, energy, and infrastructure.
- Brazil's Congress approved "Economic Reciprocity Law" authorizing retaliatory measures if needed.

China's Continued Growing Influence[2]

The tariff environment accelerates China's economic penetration in the region:

- China pledged $9.2 billion in credit to CELAC members.
- Brazil-Peru rail link to Chinese-funded Chancay mega port underway.
- Colombia considering joining Belt and Road Initiative.
- Trade between China and Brazil grew from $1 billion (2000) to over $130 billion (2025).
- Viewed as more stable partner compared to unpredictable U.S. policy shifts.

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[2] For further analysis on this topic please refer to Veritas previously published article **China's Belt and Road Initiative in Latin America: The Fallout in Governance and Business Competition**.

Long-Term Structural Challenges

The tariffs compound existing vulnerabilities:

- Projected to reduce global growth by approximately one half of a percentage point in 2025.
- May delay investment decisions due to uncertainty.
- Could push multiple regional GDP growth forecasts downward.

> ***VAP Insight**:*
> - *The tariffs may result in less remittances ("Remesas") flows critical for Central America and Mexico if the U.S. economy slows.*
> - *Central American governments may be more susceptible to pressure from organized crime ("Maras") due to limited resources allocated to border security and law enforcement.*

Economic Theory vs. Geopolitical Reality

While economists largely agree that tariffs harm economic performance historically, the political calculus differs:

- Trump administration views tariffs as negotiating leverage and domestic industry protection.
- Some South American producers may benefit temporarily from trade diversion.
- The region's dependence on U.S. trade limits retaliatory options.
- Diplomacy channel may result in concessions exchanged for tariff relief.

Conclusion: A Region at a Crossroad

Latin America finds itself navigating complex new trade realities under Trump's tariff regime. While some countries and sectors may identify short-term opportunities, the broader picture suggests significant challenges:

1. **Push for Diversification**: The tariffs accelerate existing trends toward reducing U.S. dependence, particularly through deeper China ties.
2. **Commodity Vulnerability**: Global price volatility remains a persistent threat to resource exporters.

3. **Institutional Strain**: The unilateral imposition of tariffs tests regional trade agreements like the USMCA.
4. **Political Calculations**: Leaders must balance economic interests with geopolitical relationships.

It is difficult to project the long-term impact of the tariffs in Latin America but what remains clear is the region economic future will increasingly depend on its ability to adapt to this turbulent new era of global trade relations.

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