The US- Brazil Trade Conundrum

Jerry Haar

After Napoleon Bonaparte ordered the kidnapping and execution of Louis Antoine, Duke of Enghien, his foreign minister Charles Maurice de Talleyrand-Périgord commented: “It is worse than a crime, it is a mistake.” The same may be said regarding the Trump Administration’s announced 50% tariff increase on imports from Brazil.

Bizarrely, the punitive measure has nothing to do with trade but everything to do with retaliation against President Lula da Silva for undertaking an alleged “witch hunt” against Lula’s nemesis, former President Jair Bolsonaro who is being accused of attempting to stage a coup against Lula. The fact that Lula has not met with President Trump since the president took office in January, combined with Lula’s ever closer relationship with authoritarian members of the BRICS club (Russia, China, Iran), is not conducive to a lessening of tensions between the two countries. Recognizably, political retribution for actions outside the realm of trade has been levied by the U.S. against other nations as well, witness Colombia, China and Mexico.

So, if a foreign nation is accused of not doing enough to crack down on illegal immigration to the U.S.? *Tariff*. If that same nation decides to manufacture products in the U.S.? Ok, then—*no tariff.* (Hypocrisy reigns supreme. Then, again, it always has in international relations.)

Turning to the US-Brazil trade relationship and potential impacts of the announced 50% tariff on Brazil, one should note that the relationship is an extensive and diversified one. Moreover, felicitously for the U.S., given America’s obsession with trade deficits, it is relevant to note that the U.S. enjoys a $74 billion trade *surplus* with Brazil.

In fact, U.S. total goods trade with Brazil was approximately $92.0 billion in 2024, with U.S. goods exports to Brazil nearly $50 billion—an increase of 11.3% from 2023. U.S. exports include aircraft, spacecraft, mineral fuels, machinery, and electrical equipment. Services exports to Brazil exceed

$26 billion and produce a surplus, as well. Principal Brazilian exports to the U.S., the second biggest export destination behind China, are crude petroleum, iron and steel, aircraft, and coffee.

For American households, the U.S. proposed tariff increases will significantly impact imported commodities from Brazil, the price of coffee and orange juice most notably. U.S. coffee roasters may not be able to pay 50% more for the beans, while Brazilian exporters would not be able to cut prices at the necessary level, leading roasters to source their beans elsewhere. Regarding orange juice, Brazil's leading orange juice association, CitrusBR, stated firmly that the tariff would be "unsustainable," as profit margins in the industry are too narrow to absorb the additional costs.

As for aircraft, the levy will increase costs for airlines, produce potential order cancellations, and require a reevaluation of supply chains. What about employment effects? The largest negative impacts on the U.S. are that when tariffs are increased, costs invariably will increase and, in many cases, result in import and export firms dismissing workers. This includes not only direct jobs, but indirect ones as well. To illustrate, in the US, for every 100 direct manufacturing jobs, there are approximately 744 indirect jobs supported in other industries.

Overall, there are more than 21 million American jobs supported by imports, including a net positive number in every U.S. state. This figure includes both direct and indirect jobs related to importing goods and services. Indirect jobs include roles in various sectors such as transportation, wholesale and retail, services and supply chain management.

What is missing from the debate over tariffs and US-Brazil trade tensions is the fact that even if Brazil wanted to retaliate against the U.S. for the 50% tariff increase or, more prudently, lessen the impact of that measure on Brazilian companies, workers and consumers, its Brazil's *internal barriers* as opposed to *external barriers* (i.e., U.S. tariffs) rob it from doing so!

Those of us who have lived and worked or studied in Brazil know full well that the DNA of Portuguese colonialism has produced a legacy of legal and regulatory complexity, inefficiency, and corruption that negatively impact both foreign and domestic businesses. (For example, it takes companies around 1,500 hours annually to comply with tax regulations.) In essence, this "Custo Brasil" (Brazil Cost) includes high direct and indirect costs associated with navigating the country's regulatory and legal systems.

It should not be surprising then that Brazil, the 7th largest economy in the world, comes in at #58 among 69 countries in IMD's *World Competitiveness Ranking*, lower than Kenya and the Philippines and tied with Botswana, and that it ranks #104 of 180 countries in Transparency International's *Corruption Perception Index*.

So, where are we now?

Brian Winter, executive vice president of the Council of the Americas and a Brazil expert, makes three key observations on X: (1) the U.S .public has tuned out the tariff issue; (2) both heads of Congress in Brazil adamantly believe the nation must defend its sovereignty; and (3) the current crisis is almost certain to worsen the in the medium term, It is regrettable that President Trump holds the false belief that tariffs are a proven and effective tool of economic policy and (equally false) that they should be weaponized to achieve political objectives. It is equally regrettable that Lula's policies since taking office again. have resulted in rising food costs, increased crime, fiscal profligacy, an even closer embrace of left-wing populism.

The third U.S. president, Thomas Jefferson, said: "The government you elect is the government you deserve." The jury is still out on the veracity of that dictum.

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