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Trump's new trade war and its implications for Brazil

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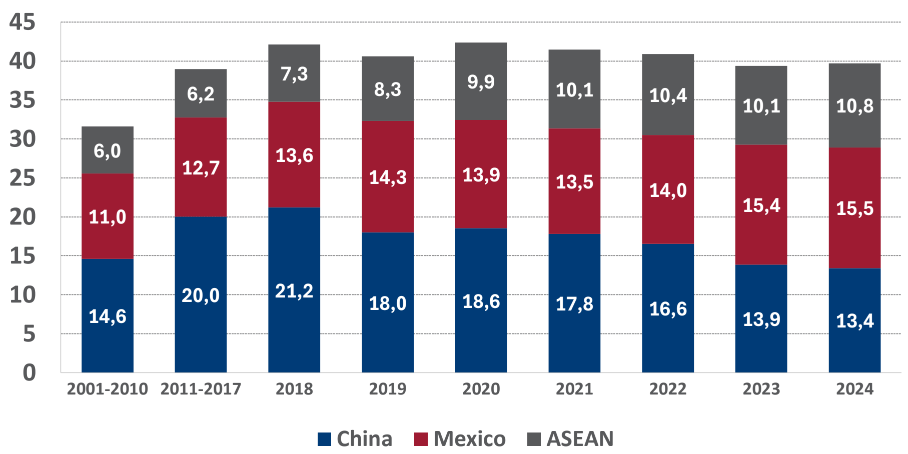
It did not take even a month for President Donald Trump to keep one of his most prominent campaign promises, the imposition of import tariffs, with the White House announcing tariffs on imports from Canada, Mexico and China. In the case of Canada and Mexico, bilateral talks led to the postponement of tariffs for a period. China announced retaliatory "countermeasures", including taxes on selected goods and antitrust investigations.

This incipient trade war adds more uncertainty to the global outlook, with relevant implications for emerging countries like Brazil, especially if global economic growth slows down owing to trade restrictions. However, the final impact will also depend on bilateral flows, whose composition may be more or less diversified in terms of partners and products. Although Brazil benefited from the last US-China trade war, this one may be a very different matter.

The fall in bilateral trade that was among the consequences of the last US-China trade war was offset by a rise in both US and Chinese trade with other countries. The US trade deficit did not shrink, but its composition changed, with imports from China declining and imports from Mexico and Asia increasing (Figure 1). China's trade surplus remained huge, and high-tech or other high value-added products such as electric vehicles were added to its export mix.

Figure 1: US Imports by Origins (% Total Imports)



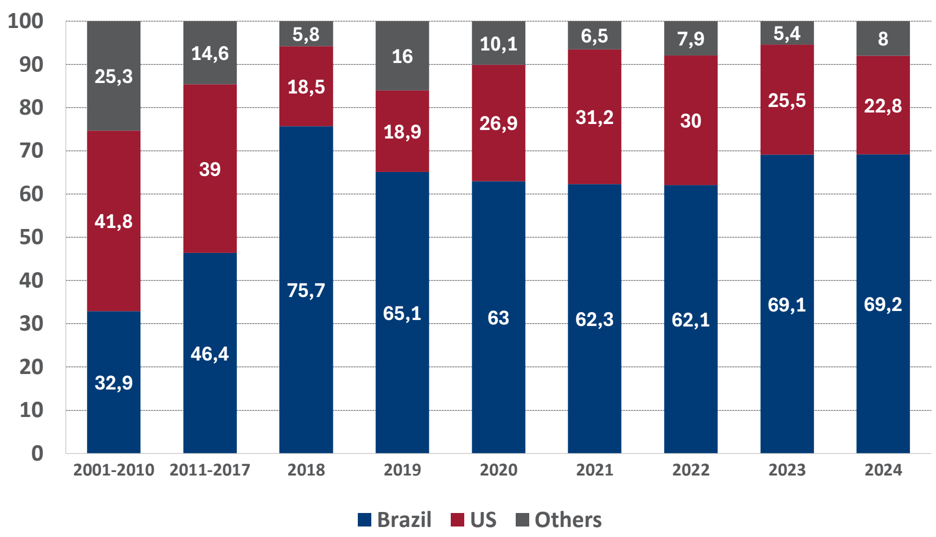
Source: BOCOM BBM, Census Bureau

In this period, too, Brazil exported proportionally less to the US and more to China, which became the main destination for Brazil's exports of soybeans, oil, and iron ore.

A reorganization of world trade during the Trump administration could have differing implications for Brazil. In the event of an intense trade war, Brazil would be in a favorable position but would stand to make far more limited gains than from the 2018-20 trade war.

The US has a relatively small share of the Chinese market for commodities exported by Brazil, except for soybeans and corn. In the case of soybeans, about 70% of Chinese imports come from Brazil, which filled the gap left by the US in 2018 and thereafter (Figure 2). In the case of corn, Brazil supplies about 50% of Chinese imports and has strongly increased its share since 2022 thanks to the signature of phytosanitary agreements with China. This is why the additional gains in commodities will be more limited henceforth.

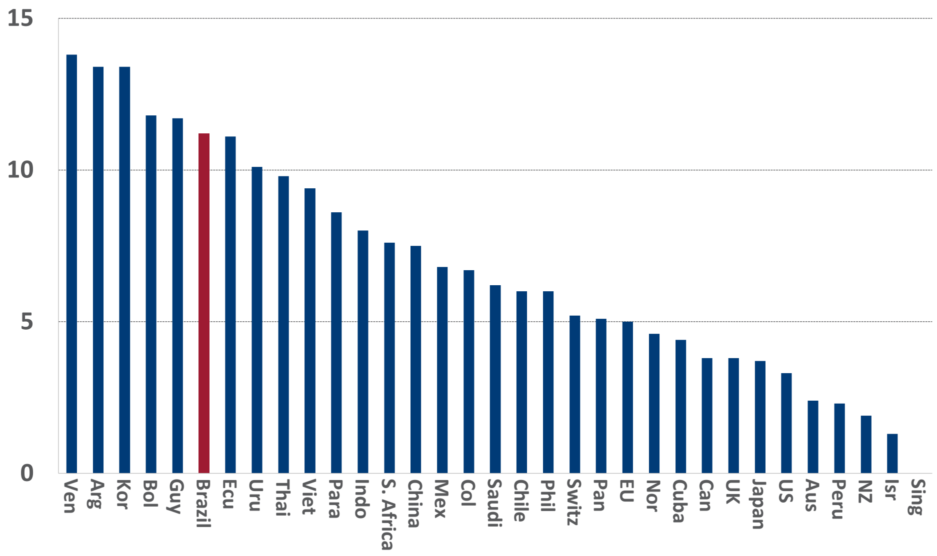
Figure 2: China Imports of Soybean by Origins (% Total Imports)



Source: BOCOM BBM, China Customs

On the other hand, the consequences for Brazil could be more adverse if the US and China enter into cooperation agreements that enable US farm produce to recover its share of Chinese imports to the detriment of Brazilian goods. Furthermore, increases in US tariffs on Brazilian exports may come up for discussion, since Brazilian duty on US imports amounts to around 11%, more than for almost all other most favored nations (Figure 3), whereas US duty on Brazilian imports represents only about 1.5%.

Figure 3: Import Tariffs by Country (%)



Source: BOCOM BBM, WTO

Despite the uncertainty about the effects of the new US trade policy on Brazil, the prospects for growth in 2025 remain good, especially owing to high expectations for the agricultural sector's performance this year. In 2026, we forecast an additional economic slowdown due to the ongoing monetary tightening, with high interest rates that are unlikely to fall for some time since inflation is set to stay well above the 3% target in 2026.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024F	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.5%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.9%	4.5%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.8%	7.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	12.0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	67	77	86
Current Account Balance (US$ bn)	-25	-40	-41	-25	-56	-49	-46
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.1%	-1.2%	-2.5%	-2.2%	-2.0%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.8%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	82.2%	87.5%