LATIN AMERICA MARKETS

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How Tariffs Might Affect LATAM Markets

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Tariffs tariffs tariffs have been the most used word since Trump took office in January 2025. Countries around the world have been scrambling to respond, and very few have managed to escape their impact—at least for now. Latin America was no exception, as the region found itself caught in the wave of new trade policies.

The full effects of these tariffs remain uncertain, but their influence is undeniable. Among the most striking announcements was the baseline tariff of 10%, imposed on most countries. Initially, this percentage may not have raised significant concerns within the region, especially when compared to the higher rates levied on other nations. However, the true implications of this 10% tariff—what it signals about future United States-Latin American trade relations—could be far more significant than it first appears.

What does this mean for Latin America?

Is this the beginning of a deeper economic shift between the region and the U.S.? While the immediate impact may seem manageable, the long-term consequences could reshape trade dynamics in ways that are yet to be fully understood.

Before we move forward, we'd like to begin by discussing three key points we believe are important regarding tariffs.

- Tariffs as a tool for negotiation. We have seen this during Trump first administration
- Tariffs as a macroeconomic tool designed both to encourage the reshoring of domestic manufacturing and to generate revenue. As a result, certain tariffs will undoubtedly be introduced to regulate imports and ensure they contribute to new sources of revenue.
- Tariffs used as a form of sanction or punishment that can escalate from 5%-15%-20% percent as a tool or in place of economic sanctions that the U.S. has used to impose on some countries.

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The 10% baseline was established for most of the Latin America countries, but approximately 60 countries are above this base line.

How might these tariffs affect the Region?

Let's begin with the fact that the U.S. holds a significant trade surplus with Latin American countries meaning the region imports more from the US than it exports. The U.S. primarily provides Latin America

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with manufacturing products, technology, innovative products and agricultural products. In contrast, Latin America exports mainly commodities and agricultural products and some light manufacturing goods.

Because of this trade surplus, the average tariff rate is far lower than other countries—with the exception of Mexico—which has been in the headlines since day one when it comes to trade. Mexico is one of the largest trading partners of the U.S., and vice versa. Any small movement of trade with U.S. has a huge impact on Mexico.

MEXICO

Mexico has been affected in some of its most vital export industries—automotives, steel, and aluminum—sectors that play a crucial role in its economic landscape. The true impact on one of Mexico's largest industries, car manufacturing, remains to be seen. How the sector adapts to these challenges will likely shape its future competitiveness and trade relations.

COLOMBIA

Although the U.S. enjoys a trade surplus with Colombia, the South American country was still affected by the baseline tariff of 10%. These tariffs were generally set at 10% to 12%, but some key products were exempted from the measure. However, the White House later announced that former President Trump would not proceed with tariffs and certain sanctions against Colombia after the country agreed to accept deported migrants from the U.S.

Colombia has historically maintained a strong relationship with the U.S. across political, economic, and commercial spheres.

However, tensions arose in early 2025 when President Gustavo Petro's policies led to U.S. sanctions, including visa restrictions, 25% tariffs on all Colombian exports to the U.S., and financial limitations.

To mitigate these sanctions, Colombia implemented new immigration policies, agreeing to accept deported migrants from the U.S., which resulted in some deportations taking place. As a result, the U.S. paused the planned tariffs and sanctions, holding them in reserve unless Colombia fails to uphold its commitments

ARGENTINA

Argentina does not currently have a formal trade agreement with the U.S., but President Javier Milei has expressed strong interest in pursuing one. Certainly, any tariff percentage will affect an economy which is still recovering; however, the overall effect of the new tariffs on Argentine exports will be neutral or limited, because of the structure of the trade relationship between Argentina and the U.S., and the fact that Argentina was assigned with the lowest tariff rate of 10%.

The impact is somehow limited because of the nature of the exports to the U.S. where nearly half of the Argentine exports to the U.S. are minerals and energy, and these sectors have been exempted from the liberation day tariffs. The remaining exports from Argentina to the U.S. represent less than 5% of total exports; therefore, exposure to trade is relatively small, which is why the impact is expected to be limited.

PERU

Peru, another Andean country, is the second largest trading partner and the primary destination for nontraditional Peruvian exports, such as fruits and vegetables. The 10% baseline tariff will have a direct impact on various agricultural and textile products originating from Peru that are imported into the U.S..

For Peru the close trading relationship with China could become an issue and a potential treat for more tariffs, so this is something to keep an eye on.

The tariffs will have an impact but moderate since Peruvian exports do not directly compete with those of the U.S.

BRAZIL

In Brazil, higher U.S. tariffs could benefit Brazilian agribusiness, while; the auto sector may face significant risks if investments and exports from third countries are diverted in response. The impact on Brazil's economy and exchange rate remains highly uncertain.

Brazilian exports (especially in more value-added products) have increased in past years with a balanced trade relationship as of last year.

The broader economic effects remain uncertain. Brazil`s relatively closed economy and independence from major trade blocs have shielded it from the worst shocks.

The real story is how Brazilian industries evolve, leveraging global market gains while navigating rising competition and uncertainty at home.

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In general, the 10% tariff applied to Latin American trade markets can provide a competitive advantage compared to other major U.S. trading partners such as the EU, China, India, Japan, and other Asian countries, which are now facing tariffs exceeding 20% or even 30%. As a result, several products stand to benefit, including garlic, wine, olive oil, honey, seafood, wood, avocado etc.

As the situation evolves, the region`s response will be crucial in mitigating the adverse effects of these tariffs.

This opinion article was written by Mauricio Alvarez, Portfolio Manager of OTG Latin America Fund.
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