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Trump's Tariffs on Brazil: Legal Security, Free Speech, and Lula's Economic Nightmare

President Trump has announced a 50% tariff on all Brazilian imports, effective 1 August. His rationale for these tariffs extends well beyond trade disputes.

To understand the reasons behind this announcement, it is important to consider Brazil's large trade barriers, lack of legal security, recent attacks on freedom of speech, and the ongoing fiscal and economic challenges under President Luiz Inácio Lula da Silva.

Brazil is a country with enormous potential, excellent human capital, and a vibrant entrepreneurial class. However, it is also one of the countries with the highest trade barriers, ranking among the most restrictive globally.

In 2023, Brazil ranked 109th in the Trade Barriers Index, highlighting the significant barriers to trade that make it the worst in the region in terms of open commerce.

These restrictions include elevated tariffs on imports, complex customs procedures, and a proliferation of non-tariff barriers, all of which make Brazil an exceedingly difficult market for foreign exporters, including those from the United States.

The Trump administration has repeatedly mentioned these barriers as justification for reciprocal action. The new 50% tariff is positioned as a direct response to what Trump describes as a "very unfair trade relationship," seeking to pressure Brazil into reducing its protectionist stance and opening its market to U.S. goods and services.

The decision is also influenced by concerns about attacks on freedom of speech and the use of the legal system to silence opponents, including the accusation of a coup attempt against former president Jair Bolsonaro.

Bolsonaro and his supporters argue that the coup accusations are meritless and politically motivated, claiming that similar tactics are used against political opponents in countries like Venezuela, Nicaragua, and Cuba.

Unpredictable regulatory environments

Another major factor influencing Trump's decision is the perceived lack of legal security in Brazil. The World Justice Project's Rule of Law Index for 2023 ranked Brazil 111th out of 142 countries, highlighting issues such as corruption, uneven access to justice, and inconsistent enforcement of laws.

Foreign investors and exporters face unpredictable regulatory environments and significant legal risks.

Another factor behind the tariff decision is Brazil's recent clampdown on digital free speech. In August 2024, Brazil's Supreme Court ordered the suspension of X. The ban was seen by many as an attempt to control political discourse and suppress dissenting voices.

> "Brazil can survive without trade with the US and will look to other partners to replace it" - Lula da Silva

Trump's letter announcing the tariffs explicitly condemned Brazil's "attacks on Free Elections and the fundamental Free Speech Rights of Americans," referencing the X ban and similar actions against other platforms.

He argued that such measures undermine democratic norms and threaten the open exchange of ideas, further justifying the imposition of punitive trade measures.

President Lula's response was defiant. In a televised interview, Lula asserted, "Brazil can survive without trade with the US and will look to other partners to replace it." He emphasised that Brazil's trade with the U.S. represents only about 1.7% of its GDP.

Brazil faces a clear choice

However, this response obscures a more

complex reality: Brazil's economy is heavily dependent on U.S. and foreign investors.

The U.S. dollar remains the primary currency for trade settlements, foreign reserves, and external debt in Brazil.

Brazil's public debt is high, at about 80% of GDP, and a significant portion is held by foreign investors. Furthermore, Brazil's persistent fiscal deficits, around 8% of GDP, require ongoing access to international capital markets.

The Trump tariffs will be eliminated only if legal security and freedom of speech are restored and if Brazil's elevated trade barriers are at least partially removed - Daniel Lacalle

Lula's administration has struggled to balance ambitious social spending with fiscal responsibility. Efforts to implement a new fiscal framework have been hampered by political resistance and credibility crises, leading to significant currency devaluation and emergency spending cuts.

Most analysts forecast a modest 1.5% GDP expansion in 2025. Persistent deficits, the weak financial situation of state-owned companies, a ballooning public debt nearing 80% of GDP, and a recent $500 million deficit in federal state companies have raised concerns about Brazil's fiscal sustainability.

A critical issue facing Brazil is significant industrial overcapacity. As of February 2025, Brazil's seasonally adjusted manufacturing capacity utilisation rate stood at only 78.9%, compared with a long-term average of around 80.8%.

This persistent 20% overcapacity creates substantial working capital challenges for exporters, and the weak financial situation of state-owned companies underscores this problem.

Consequently, Brazil cannot simply offset its sales to the United States with other nations, nor can it easily mitigate its industrial working capital issues.

President Trump's 50% tariff on Brazilian imports is a response to Brazil's trade barriers, legal insecurity, recent attacks on digital free speech, and the country's fiscal and economic challenges under Lula.

Brazil faces a clear choice: negotiate or lose. The Trump tariffs will be eliminated only if legal security and freedom of speech are restored and if Brazil's elevated trade barriers are at least partially removed.