Centrale Bank van Aruba

The Potential Impacts of U.S. Tariffs on the Aruban Economy

November 2025

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*Disclaimer: The views expressed herein are those of the authors, and do not necessarily reflect those of the Centrale Bank van Aruba



1. Introduction

Background Information

On January 20th, 2025, Donald J. Trump was inaugurated to serve as the 47th President of the United States of America for a second (nonconsecutive) term. One key element of Trump's economic agenda was to impose trade tariffs on countries with large trade deficits or those, in his view, engaged in unfair trade practices. In particular, the main countries targeted by the tariffs include China, Canada, and Mexico, which represented nearly 40 percent of imports into the U.S. in 2024[1].

The raised concerns of accelerated inflation during 2025, with the corresponding effects on economic growth, have flared up the feeling of uncertainty indicated by consumer sentiment in the U.S. sinking for the first time since 2021 in March 2025[2]. However, it was not until August 2025 with the revision of labor market data for June and July that employment began to show initial signs of a weakening economy[3]. In addition, inflation only started to show signs of tariff pass through as of August 2025. Therefore, this analysis aims to consider the possible channels through which the implementation of U.S. tariffs may impact the Aruban economy[4].

Key Takeaways

This study shows that the main direct impact of U.S. tariffs on Aruba's economy is through imported inflationary pressures. For imported goods we estimated a month-over-month price increase between 2.4% and 5.8% in July 2025, depending on the baseline or alternative scenarios. The primary indirect effect is the reduced disposable income of American consumers, with its associated repercussions for the Aruban tourism sector. Other possible indirect effects comprise a slowdown in construction and utility price shocks.

[1] Source: What are tariffs, why is Trump using them, and will prices rise? - BBC
[2] Source: US consumer sentiment tumbles to four-year low; fears over tariffs mount | Reuters
[3] Source: Economic Data Has Taken a Dark Turn. That Doesn't Mean a Crash Is Near. - The New York Times
[4] While this analysis was written in March / April 2025, the frequency in changes to the administration's policies may cause statements herein to also be subject to amendments.

2. Aruba's Economy and Trade with the United States

Tracking developments in the U.S. economy is critical for Aruba's economy, given the island's heavy reliance on U.S. visitors. In 2024, tourists from the U.S. represented 75 percent of total stayovers to the island (ATA December 2024 report). In addition, Aruba also imports a significant share of its goods from the U.S – roughly 50% (see Table 1)[5]. Thus, economic developments in the U.S. have major implications for the Aruban economy, not only through tourism and imported inflation, but also in terms of food and energy security.

Table 1. Share of total imports by main trading partners of Aruba (based on CBS Aruba's Foreign Trade Statistics)

	United States of America	The Netherlands	China	Spain
Q4 2023	50.8%	13.2%	6.5%	1.8%
Q1 2024	52.6%	13.0%	5.9%	2.4%
Q2 2024	48.6%	13.6%	5.0%	3.9%
Q3 2024	46.1%	13.2%	7.7%	3.8%

3. Potential Economic Impacts on Aruba

3.1 Direct Impact through Imported Inflation

The main direct impact of U.S. tariffs on Aruba's economy is through imported inflationary pressures. As mentioned above, the U.S. is Aruba's largest trading partner, and if products with Chinese, Canadian, or Mexican inputs become more expensive in the U.S., and businesses/importers do not absorb this cost, a similar effect may be expected in Aruba. According to an analysis conducted by the Yale Budget Lab, the products to be most affected include electronics and clothing, while motor vehicles and food products would also increase in prices[6].

The Research and Economic Policy (REP) Department did its own analysis to quantify the tariff effect on Aruban inflation. This analysis was based on the method of Barbiero & Stein (2025). A benefit of this method is that it accounts for goods labeled "made in the USA" that contain imported components themselves. Furthermore, the method is flexible enough to capture how producers defend markups after inputs become more expensive (constant

[5] According to most recently published trade sector data from the CBS.
[6] Source: The Fiscal, Economic, and Distributional Effects of 20% Tariffs on China and 25% Tariffs on Canada and Mexico | The Budget Lab at Yale

dollar markup vs. constant percentage markup). Assuming constant percentage winnings, minding the import shares, analyzing the supply/use tables, and given the three selected tariff shocks, we produce varying producer price inflation shocks due to tariffs (Table 2).

Table 2: U.S. producer price inflation shocks among three tariff paths in 2025

	Baseline	Mild trade war	Severe trade war
Tariff shock (m-o-m)	China: +30% points; RoW: +10% points	China:+30% points; RoW: +19% points	China:+114% points; RoW: +19% points
Producer price shock for goods and services (m-o-m)	+1.6%	+2.7%	+3.8%
Producer price shock for goods (m-o-m)	+3.8%	+6.5%	+8.9%
of which unweighted contribution: electrical equipment, appliances, and components	+5.6%	+8.9%	+14.3%
of which unweighted contribution: apparel and leather and allied products	+7.1%	+10.5%	+20.0%
of which unweighted contribution: motor vehicles, bodies and trailers, and parts	+7.1%	+12.2%	+16.9%
of which unweighted contribution: food and beverage and tobacco products	+4.0%	+7.2%	+9.0%

To determine which U.S. products imported to Aruba may experience higher prices in the upcoming year, it is important to determine the products that are regularly imported from the U.S. Table 3 highlights that in absolute (>Afl. 100 million) and relative terms, Aruba imports plenty of live animals and other animal products, food products, mineral products, chemical products, and machinery and electrotechnical equipment from the U.S. These categories

are likely to significantly contribute to import inflation as a result of the tariffs imposed by the U.S. and their weight in Aruba's import basket.

Table 3: US imports (excluding free-zone) to Aruba in 2023, by section

	U.S. (Afl. million)	World (Afl. million)	U.S. share per section
01 Live animals and other animal products	113.9	222.4	51.2%
02 Vegetable products	79.7	136.0	58.6%
03 Fats and oils	11.0	17.6	62.7%
04 Food products	189.9	344.1	55.2%
05 Mineral products	161.9	191.0	84.8%
06 Chemical products	111.1	228.2	48.7%
07 Artificial plastic elements	44.6	85.2	52.4%
08 Skins, hides, leather and peltry	7.5	29.4	25.5%
09 Wood, charcoal and woodwork	10.8	25.5	42.5%
10 Materials for the manufacture of paper, paperwork	30.7	62.4	49.3%
11 Textile fibers and articles	64.2	126.8	50.6%
12 Footwear, headgear and umbrellas	15.2	33.6	45.1%
13 Works of stone, gypsum, cement, asbestos	18.5	55.4	33.5%
14 Real pearls (natural) and other precious stones	72.1	101.8	70.9%
15 Base metals and derivated works	50.7	139.1	36.4%
16 Machinery and electrotechnical equipment (new & renewed)	201.0	362.0	55.5%
17 Transport equipment	57.2	198.3	28.9%
18 Optical instruments, apparatus and equipment	61.3	112.4	54.5%
19 Arms and ammunition	0.8	0.8	95.5%
20 Various goods and products n.e.s.	66.6	128.9	51.7%
21 Art-objects and collector's items	1.9	15.3	12.3%
Total	1,370.8	2,616.0	52.4%

Minding each import category's U.S. share and price increase, Table 4 point to a goods import inflation between 2.4% and 5.8%.

Table 4: Import inflation shocks to goods in Aruba across three U.S. producer price shocks in 2025

	Baseline	Mild trade war	Severe trade war
Producer price shock for goods (m-o-m)	+3.8%	+6.5%	+8.9%
Goods import shock (m-o-m)	+2.4%	+4.0%	+5.8%

However, an import price change does not necessarily translate one-to-one to inflation. This pass-through depends on the consumption basket. Therefore, to produce more realistic inflation shocks from the tariff war (Table 5), the REP Department takes the CPI weights into account and uses an in-house bridge table from imported goods to consumption goods. It is important to note that the month-over-month inflation shock in July 2025 is larger than the period average inflation shock in December 2025, as in the latter there are months which did not experience a shock.

Table 5: CPI inflation shock to Aruba due to three import shock scenarios in 2025

	Baseline	Mild trade war	Severe trade war
Goods import shock (m-o-m)	+2.4%	+4.0%	+5.8%
Inflation shock (m-o-m)	+0.8%	+1.4%	2.0%
Inflation shock (period average) relative to pre-baseline	+0.4% (from 0.7% to 1.1%)	+0.7% (from 0.7% to 1.4%)	+1.0% (from 0.7% to 1.7%)
of which weighted contribution: core	+0.4%[7]	+0.5%	+0.7%
of which weighted contribution: food	+0.1%	+0.2%	+0.3%
of which weighted contribution: energy	+0.0%	+0.0%	+0.0%

[7] Weighted contributions of components might not add up to the overall contribution due to rounding.

Inflation shock (period average) relative to baseline	NA	+0.3% (from 1.1% to 1.4%)	+0.6% (from 1.1% to 1.7%)

Thus, the U.S. trade war raises Aruba's period average inflation rate by between 0.3 percentage point to 0.6 percentage point in 2025 relative to the baseline. For the mild scenario we estimate that Aruba's period average inflation rises from its baseline estimate of 1.1% to 1.4% in 2025**.** In the severe scenario, inflation reaches 1.7% in 2025. With respect to U.S. inflation expectations, the Federal Reserve's end-of-period inflation forecast for the 4th quarter of 2025 rose from 2.5% (December 2024 projection) to 2.7% (March 2025 projection), and then to 3.0% (June 2025 projection). In comparison, our December 2025 end-of-period inflation forecast before U.S. tariffs is 1.4%, including the base-tariff 2.3% (corresponding to our baseline scenario), mild scenario tariff 2.9%, and severe scenario tariff 3.5%. Hence, the Fed anticipates an end-of-period inflation jump of 0.5 %-point (3.0%-2.5%), whereas the REP Department foresees a stronger baseline shock of 0.9 %-point (2.3-1.4%). This delta may be due to differing assumptions in, among others, tariff rates – in timing, magnitude, goods coverage, and country coverage – passthrough from import prices to domestic prices, as well as U.S. companies stocking inventory ahead of tariffs.

For 2026, the REP Department does not impose additional month-over-month shocks, causing December end-of-period inflation to be equal across the baseline as well as scenarios 1 and 2. Nevertheless, the temporary shock in 2025 exerts a lasting effect on the period average inflation in December 2026, which is presented in Table 6.

Table 6: CPI inflation shock to Aruba in 2026 due to three import shocks in 2025

	Baseline	Mild trade war	Severe trade war
Inflation shock (period average) relative to pre-baseline	+0.5% (from 1.1% to 1.6%)	+0.8% (from 1.1% to 1.9%)	+1.0% (from 1.1% to 2.1%)

3.2 Indirect Impact through Tourism

One way in which the Aruban economy may be indirectly impacted by the implementation of U.S. tariffs is through reduced disposable income of American consumers. If U.S. tariffs on consumer goods increase the cost

of living in the U.S., as is modeled by the Yale Budget Lab [8], this could reduce the disposable income of American tourists. This study finds that the average American household will pay between $1600-$2000 more in 2024 dollars due to these tariffs, with the poorest households losing the most, relatively, at $900-$1,100 annually. As a result, American tourists might shift their spending patterns, opting for more budget-friendly destinations, or forgo a vacation altogether during 2025[9]. Fewer tourists visiting Aruba may result in lower consumption by tourists, and through less tips received by employees in the tourism sector, also decreased consumption by this portion of the population. As a result of the possible lower tourism exports and local consumption, the Aruban government may receive less tax revenues from wages, import duties and excises, and turnover, among other tax categories.

With respect to tourism, we maintain the same two trade war scenarios, revolving around a moderate or deep contraction in stay-over visitors. In ATA's analysis of the negative trade war impact on Aruba's tourism, it assumes a decline of 3% in tourism stay-over arrivals in 2025 for its mild scenario, and a decrease of 6% for its severe scenario. Given that data from ATA illustrates that year-to-date June 2025 tourism stay-over visitors had increased compared to year-to-date June 2024 (3.3% increase), we slightly adjust that assumption. Rather than for 2025 as a whole, we assume that ATA's scenario decline in tourism starts from August 2025 and lasts until July 2026. This implies that, e.g., in the mild scenario, the year-over-year growth is -3% from August 2025 to July 2026. For the rest of 2026, we assume that in the mild scenario, tourism rebounds by growing at the same rate as in the baseline scenario ("business as usual"), namely 2%. In the severe scenario, we assume that tourism continues decreasing after July 2026 at 3%. Keeping the average length of stay constant and estimating tourism credit per night based on several inflation components, we then obtain updated figures for tourism credits.

As a result of the direct and indirect effects mentioned, tourism-related businesses may face higher operating costs as well as decreased business. The tourism sector, which relies on imported goods (from food and beverages to resort supplies), would face higher operating costs due to tariffs. This might raise the cost of services for tourists, further affecting the island's competitiveness as a tourism destination. Therefore, the profitability of these

[8] Source: The Fiscal, Economic, and Distributional Effects of 20% Tariffs on China and 25% Tariffs on Canada and Mexico | The Budget Lab at Yale

[9] A caveat is that U.S. tourists on Aruba tend to be in the higher income groups, meaning their discretionary budget is less affected than lower income groups,

businesses on the island can also be negatively affected, further exacerbating the reduction in government tax revenues.

3.3 Indirect Impact through Energy Sector

Aruba's oil company (RDA) is heavily dependent on movements in the global oil market, making it also susceptible to indirect effects from tariffs. During stakeholder consultation missions in March 2025, the RDA reported that more than 90 percent of oil imports (through HFO, diesel, and LPG) are derived from the U.S. (and St. Croix, U.S. Virgin Islands), while the other trading partner in oil is currently Colombia. A U.S. trade war or tariffs on machine (parts) and/or lubricants may raise the production cost of (refined) oil in the U.S., which might affect prices in Aruba's energy sector, with a cascading effect on the cost of living for consumers, if not absorbed by the WEB.

3.4 Indirect Impact on Construction

As published in the Governing from the Future Report (Chapter 6), Aruba's housing market faces significant shortages and high purchase prices. The planned U.S. tariffs of 25 percent on aluminum and steel exported from Argentina, Australia, Brazil, Canada, the EU, Japan, Mexico, South Korea, and the UK, may further exacerbate these challenges[10] depending on whether the U.S. exports domestically produced vs. imported aluminum and steel to Aruba. Additionally, with the ongoing construction and/or renovation of various hotel projects, these may also become more costly to complete and/or execute.

4. Policy Recommendations for Aruba

As a result of the potential direct and indirect consequences of the implemented U.S. tariffs, we provide the following policy recommendations:

A. Increase Focus on Regional Trade Agreements

Aruba should deepen its economic integration with regional markets, especially within the Caribbean and Latin American region, as a way to reduce reliance on U.S. imports. By diversifying the markets in which Aruba conducts trade, it is possible to reduce the dependence on the U.S. economy

[10] Source: US Tariffs on Steel and Aluminum: Analyzing the Impacts | BCG

and help (partially) insulate Aruba from the volatility caused by U.S. tariff policies.

B. Diversify Tourism

Aruba should continue to look into non-U.S. tourist markets, by targeting emerging markets outside the U.S., such as Canada, South America, and Europe. This could also involve tailoring marketing strategies to attract higher-spending tourists from regions less impacted by U.S. economic policies.

C. Boosting Local Production

By investing in local industries, in particular agriculture, Aruba would be able to build a more resilient local economy while also ensuring food security. This would not only reduce reliance on imports but also create job opportunities.

5. Conclusion

This study aims to analyze the channels through which the U.S. tariffs could affect Aruba's tourism-dependent economy through its effects on (imported) inflation, the tourism sector, the energy sector, and construction. It specifically quantified the magnitude of potential inflationary effects under different scenarios. Given the potential effects on, particularly, (imported) inflation and the tourism sector, it emphasizes the need for Aruba to adapt by diversifying markets and collaborating regionally within the Caribbean and Latin America. Finally, the research concludes with several policy recommendations, in order to, going forward, minimize the impact of a volatile, uncertain, complex, and ambiguous (VUCA) global economy.

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