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Puerto Rico: Import exposure to the new tariffs from the United States

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On April 2, 2025, President Trump announced the imposition of reciprocal tariffs on U.S. trading partners. Although a baseline tariff of 10% applies to countries such as Argentina, the Bahamas, Panama, Paraguay, Brazil, and the Dominican Republic, higher tariffs were imposed on some of the U.S.'s main trading partners, including China (34%), Vietnam (46%), the European Union (20%), South Africa (30%), and Taiwan (32%). In addition, a 25% tariff on foreign-made automobiles was announced, while copper, lumber, pharmaceuticals, and semiconductors may be subject to tariffs soon.

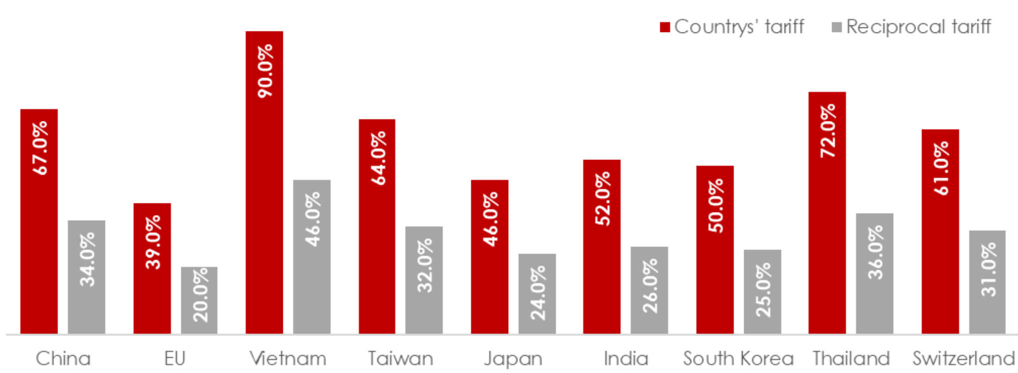
What is a reciprocal tariff

A reciprocal tariff imposes the same rate on U.S. imports that other countries charge on U.S. exports on a product-by-product basis. [a]

For example, if a country imposed a 6.0% levy on U.S.-made footwear, the U.S. would tax that nation's footwear at the same rate.

In 2023 the U.S. total simple average tariff rate was 3.3%.

Illustration 1: Reciprocal Tariffs for Selected Countries (%)



Source: White House

So far, the implementation of these tariffs have four objectives:

1. Narrow the U.S. trade deficit with its trading partners.
2. Raise additional fiscal revenue to support the extension of the Tax Cuts and Jobs Act of 2017 (set to expire by year-end).
3. Encourage U.S. and foreign manufacturing operations to locate in the United States, boosting the manufacturing industry and creating additional jobs.

4. Negotiate better commercial terms and address national security issues, particularly those related to immigration and fentanyl trafficking at U.S. borders.

What is at stake in Puerto Rico?

In Puerto Rico, the share of merchandise imports from foreign countries has decreased, while the share of imports from the U.S. has increased—reflecting post-2018 tariff hikes by the U.S. on Chinese and European goods. Due to complex, highly integrated global supply chains, finished and intermediate goods imported from the U.S. will already reflect the impact of the 25% tariffs previously imposed on Mexico and Canada, the 20% on China, and the 10% on aluminum and steel. The newly announced reciprocal tariffs will add additional pressure on import prices, raising the risk of a rebound in inflation after two years of slowing price growth.

A positive note, albeit temporary, is that pharmaceutical products were exempted from new tariffs, which should bring relief to the industry in Puerto Rico. But this may be a temporary policy, as news reports have stated that the administration is still seeking to establish tariffs targeting pharmaceuticals. The postponement is to give time to the industry to shift its manufacturing. This may represent an opportunity here for Puerto Rico. The potential impact of tariffs to the industry would be significant, as many U.S. companies make the active ingredients largely in Europe, which is the case for Puerto Rico.

Imports of oil, gas, and refined products were exempted from the tariffs, which is a relief for the island consumers. Nevertheless, inflation in food products is expected, since 41.0% of agricultural products are sourced directly from foreign countries directly and an additional percentage that passes through the U.S. On a positive note, tariffs may encourage local production of agricultural products and food manufacturing

The 25% tariff on foreign-made automobiles and light trucks is likely to raise consumer prices by several thousand dollars per vehicle, depending on the proportion of non-U.S. components. Tariffs may boost short-term demand for available inventories, but once prices reflect the impact of the tariffs, sales are expected to continue declining above a previously expected decline of 6% for the year.

While some or all of these measures may be reduced or rescinded during ongoing negotiations, current signs of economic strain in the U.S. suggest prolonged trade tensions could weaken consumer confidence and spending and hinder global trade.

A key proposal under consideration by the U.S. Trade Representative (USTR) could significantly affect Puerto Rico's economy, given the island's dependence on imported goods. On February 21, the USTR announced plans to impose "service fees" of up to $1.5 million per net ton on Chinesebuilt ships calling at U.S. ports, including San Juan. Initiated in April 2024 and determined on January 21, 2025, this measure would raise port fees, driving up global shipping costs.

Repercussion of the newly imposed reciprocal tariffs in global markets

Global markets have already reacted. Today, early in the morning session, the Dow futures plunged by more than 1,000 points, S&P futures down by 195 points, and Nasdaq futures down by 768 points. Meanwhile, West Texas Intermediate (WTI) oil prices have fallen to $66 per barrel, and the 10-year Treasury yield stands at 4.02%, down from 4.20% prior to the announcement of these reciprocal tariffs.

Although it is too early to gauge the full unintended consequences of these tariffs, current market indicators reveal heightened concern about a potential short-term economic recession. The U.S. Treasury Secretary, Scott Bessen, and President Trump have both anticipated that the current trade policy could weaken the economy, but there remains significant uncertainty regarding the magnitude of any downturn. The U.S. could face a range of scenarios—including a mild recession, a deeper downturn, or stagflation.

The U.S. dollar has declined against other major currencies, which could benefit U.S. exports. At the same time, investors are shifting assets into U.S. Treasuries ("flight to quality"), helping to push the 10-year Treasury yield lower—a favorable development given that approximately $9 trillion in outstanding Treasury debt is expected to mature by late 2025. Oil prices have also been trending downward, aligning with the U.S. government's goal of reducing energy costs to ease inflationary pressure on consumers.

In conclusion, the newly announced reciprocal tariffs have introduced a significant degree of uncertainty for the global economy, the U.S. and Puerto Rico, both in terms of potential costs for imported goods and the reshaping of global supply chains that may open opportunities for local manufacturing. While a drop in commodity prices like oil and a weaker dollar could support some sectors, higher input costs and risks of recession in the U.S. and abroad remain pressing concerns. The ultimate impact will depend on the duration and intensity of the trade dispute, as well as on Puerto Rico's capacity to leverage on emerging opportunities.