DEPARTMENT OF ECONOMIC
DEVELOPMENT
AND COMMERCE
GOVERNMENT OF PUERTO RICO

The Economic Spotlight

Policy Brief

The Economic Implications of U.S. Tariffs on Puerto Rico, Challenges and Opportunities

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POLICY BRIEF

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Introduction

The recent imposition of tariffs on major U.S. trade partners, including Canada, Mexico, and China, introduces both challenges and opportunities for Puerto Rico. The Island operates under federal trade policies, offering, mostly "duty-free" access to the mainland U.S. market. This strategic position presents both vulnerabilities and advantages.

The economic impact of the newly imposed tariffs will largely depend on how other jurisdictions perceive their permanence. If trade partners view these tariffs as a short-term measure designed to create leverage for broader negotiations, their response may be measured and temporary, minimizing long-term disruptions. However, if these tariffs are seen as permanent shifts in U.S. trade policy, they could trigger structural adjustments in global supply chains, potentially leading to long-term market realignments and retaliatory actions. Recent events highlight a business climate of uncertainty given that policy measures have changed almost daily.

Given the evolving nature of global trade negotiations, it remains uncertain whether these tariffs will be lifted, modified, or expanded in the future. Puerto Rico must remain agile and position itself as a stable, long-term alternative for businesses looking to mitigate uncertainty in their production and distribution strategies.

To proactively address these challenges and seize emerging opportunities in international trade, the Puerto Rico Department of Economic Development and Commerce (DEDC) has taken affirmative actions to strengthen the island's economic position. Recognizing the strategic potential of reshoring, the government has enacted Executive Order 2025-012, which specifically focuses on leveraging Puerto Rico's competitive advantages to attract businesses seeking to relocate or expand their operations within U.S. jurisdiction. Through this executive action, DEDC is actively working to position Puerto Rico as a premier destination for high-value manufacturing, logistics, and investment, ensuring that the local economy benefits from shifts in global trade policy.

This policy brief evaluates the economic impact of the tariffs and explores Puerto Rico's potential to become a hub for nearshoring and reshoring investment, strengthening its economic resilience.

Key Economic Implications for Puerto Rico:

- Opportunities for nearshoring and reshoring
- Rising costs of imports and consumer prices
- Supply chain disruptions in manufacturing

Summary of Tariffs Imposed

- Broad tariffs on Canada & Mexico (25%) - The tariffs affect nearly all Canadian and Mexican goods, except for a 10% carve-out for oil & gas. These measures could push both economies into recession, leading to higher prices for U.S. consumers. Puerto Rico could benefit if companies seek alternative manufacturing locations within a U.S. jurisdiction. After March 4th these tariffs come with an additional one-month exemption for American vehicles. This should provide automakers with more time to restructure their production lines to minimize the impact of the new tariff. Vehicles produced in the US would be at a disadvantage since they are often made throughout all countries in the USMCA (successor to NAFTA). (Given the announcement of temporary waivers, the enactment of such tariffs has varied during the past weeks)

- Oil & gas tariffs (10%) - The U.S. is highly dependent on Canadian heavy crude for refining. The tariff may cause higher energy prices, affecting businesses and households in Puerto Rico.

- Tariff on Imported Vehicles (25%) – Another proposed tariff is on all imported vehicles of an additional 25%, this mainly targets European vehicles but would affect vehicles imported from other regions as well. This tariff would come into effect on April 2nd.

- Additional 10% tariff on goods from China - This tariff adds to an existing 25% tariff on Chinese imports (these tariffs were implemented in phases after 2018 and did not encompass all imported goods from China), increasing supply chain pressures.

- Potential 25% tariff on EU goods - This could raise costs for pharmaceutical companies that source raw materials or finished products from Europe. If implemented, Puerto Rico would become a more attractive location for pharmaceutical manufacturing. There is no date announced when they would commence, but the expectation for the tariff to be in place before the end of summer.

- Previous tariffs on steel and aluminum – During 2018, the U.S. has imposed tariffs on imported steel and aluminum (Section 232 of the Trade Expansion Act of 1962), affecting manufacturers who rely on these materials. This results in higher production costs for industries such as construction, aerospace, and automotive manufacturing.

- Reciprocal Tariffs – There is still a looming threat of reciprocal tariff that should start on April 2nd. These would automatically be imposed on countries that themselves imposed a tariff on US products. The reciprocal tariff would be of the same dollar value as those imposed on the US. This could spark a further response from other countries, leading to a rapid increase in inflation in a short period of time.

- Tariff on Semiconductors & Pharmaceuticals (25%+) – This tariff has been announced and is expected to be 25% or more. This is still in preliminary discussions, the final rate and the products to which it will apply are still being outlined.

Potential Challenges in Puerto Rico

- Increased consumer prices –Increased tariffs on imported goods from key trade partners will likely raise production costs and lead to inflationary pressures, increasing the cost of living for residents and affecting business operations. Puerto Rico depends on imports for essential goods, including raw materials and consumer products.

    - The local economy could experience a change in prices similar to what the Island experienced during the pandemic but in a smaller scale.

- Supply-chain disruptions in manufacturing - Puerto Rico's manufacturing sector—including pharmaceuticals, electronics, and aerospace—relies on imported raw materials which will be subject to tariffs if imported from outside the US. However, the need for supply chain stability among U.S.companies presents an opportunity for Puerto Rico to attract firms seeking to mitigate trade risks.

    - While Puerto Rico's direct exports to Mexico, Canada and China are limited, the indirect effects could impact industries that are deeply integrated into U.S. supply chains, potentially reducing demand for Puerto Rican-made products. However, given the high value-added nature of Puerto Rico's exports, particularly in the pharmaceutical and medical device sectors, the likelihood of retaliatory measures specifically targeting these products remains low. Many of Puerto Rico's exports are essential goods with critical supply chain dependencies, making them less likely to be subjected to trade restrictions or punitive tariffs from foreign jurisdictions.

Competitive Advantage of Puerto Rico Amid Tariff Policies

Despite the above risks and challenges, Puerto Rico benefits from its competitive tax structure and U.S. trade status, which could mitigate negative effects and attract new investment. The Island can capitalize on the opportunity by positioning itself as an attractive nearshoring destination for U.S. and multinational companies seeking supply chain security and tariff-free trade within U.S. jurisdiction.

- Stability & Predictability for Businesses - Unlike other jurisdictions, Puerto Rico can offer policy stability, providing shelter from trade volatility.

- Puerto Rico’s Tax Incentives & the Global Minimum Tax - Puerto Rico’s tax incentives provide a safe and predictable jurisdiction for corporations seeking to minimize tax exposure (contingent to an adequate GMT legislation enacted in Puerto Rico). Global tax uncertainty has made Puerto Rico’s established tax benefits and its relation to the U.S. even more appealing.

- Access to the U.S. Market - Unlike offshore jurisdictions, Puerto Rico benefits from duty-free trade within the U.S. This provides a major advantage for companies seeking a secure supply chain and unrestricted access to U.S. consumers.

Why Nearshoring is Becoming Even More Attractive

The imposition of tariffs will inevitably increase the cost of imports for foreign manufacturers operating in Puerto Rico, particularly in the pharmaceutical, medical device, and electronics sectors. These industries rely heavily on imported raw materials and intermediate goods, making tariffs a short-term disruption for the island’s manufacturing sector. However, given the high-value-added nature of foreign direct investment (FDI) in Puerto Rico and the fact that competing jurisdictions such as Mexico will also experience cost increases, Puerto Rico has an opportunity to leverage its unique trade position. By adapting its current incentive structure, the island could enhance its role as a stable and cost-efficient trade hub with the U.S. mainland. This would reinforce Puerto Rico’s strategic advantage, ensuring it remains an attractive location for multinational firms navigating a more uncertain global trade environment.

If these tariffs remain in place over the medium term, U.S. multinational companies that are considering relocating operations back to the U.S. mainland could view Puerto Rico as a viable alternative. The island offers a lower-cost production environment compared to many U.S. states, while also benefiting from duty-free access to the U.S. market and favorable tax incentives under Act 60. Additionally, Puerto Rico's skilled workforce, established industrial base, and integration into U.S. trade policies position it as an ideal nearshoring destination for companies looking to mitigate tariff risks while maintaining cost efficiency. By proactively aligning industrial policy and incentives, Puerto Rico can capitalize on this shifting trade dynamic and solidify its role as a key player in global supply chains.

Key Sectors

- Pharmaceuticals & Medical Devices - The U.S. push for domestic medical supply chains makes Puerto Rico a prime location for reshoring.

- Electronics & Semiconductors - U.S. investment in semiconductor manufacturing under the CHIPS Act aligns with Puerto Rico’s high-tech industrial capabilities.

- Aerospace & Defense - The U.S. defense industry is seeking secure domestic production sites, making Puerto Rico an attractive option. However, this requires a stronger relationship with several U.S. agencies.

Policy Initiatives

- Under executive order OE-2025-012, the DEDC Secretary was designated as the Principal Strategy Coordinator for reshoring. This along with task forces designed to provide the Island with a unified strategy to attract corporations and streamline the process of moving production to Puerto Rico. Within 90 days, the DEDC will provide a detailed plan to use existing programs de develop and prepare the Island's workforce for these new opportunities.

- Launch targeted marketing initiatives emphasizing Puerto Rico's tariff-free benefits for companies facing supply chain risks. Highlight Puerto Rico's logistics advantages and business-friendly incentives. Develop a strategic outreach plan along with Invest Puerto Rico for engaging U.S. and multinational firms.

- DEDC has started a working group (with local economists) focused on the effects of tariffs and investment attraction. This initiative could benefit from former GMs and top executives of manufacturing facilities in Puerto Rico and who have strong ties with the jurisdiction.

- Coordinate with U.S. federal agencies on economic policies that benefit Puerto Rico. i.e. Collaborate with the U.S. federal government on funding opportunities for reshoring initiatives.

- Expand tax incentives under Act 60 to prioritize nearshoring projects. Create specially crafted incentives that could provide a strong "signaling" within international markets.

- Introduce investment grants and expedited permitting for companies shifting operations from China, Mexico, and Canada.

- Alling reconstruction funds (post Hurricane María) top-grade logistics infrastructure, port facilities, and energy reliability to support large-scale manufacturing investments.

Final Remarks

The evolving landscape of U.S. trade policy, marked by new tariffs on Canada, Mexico, and China, presents both risks and opportunities for Puerto Rico. While supply chain disruptions and rising production costs could create challenges for local manufacturers, the island's unique trade status, skilled workforce, and established manufacturing ecosystem offer a compelling alternative for companies seeking to mitigate tariff risks while maintaining access to the U.S. market.

The greatest opportunity for Puerto Rico, however, lies in the potential for US multinational companies that consider to relocate back to the US. If these tariffs materialize, several multinational pharmaceutical and medical device companies outside the US may be compelled to shift or expand their operations to Puerto Rico to preserve duty-free access to the U.S. market. Given that Puerto Rico is already home to some of the largest pharmaceutical and biotech manufacturing facilities in the world, it stands as a natural destination for firms looking to protect their market share, remain cost-competitive and streamline their supply chains.

Moreover, beyond the direct relocation of multinationals, the island could also benefit from an influx of key suppliers, many of whom are currently based in Southeast Asia and serve European firms. If US manufacturers move production to Puerto Rico, their supplier networks may follow suit, creating a multiplier effect that drives further investment, job creation, and economic growth.

As global trade policies continue to shift, Puerto Rico must take a proactive approach, positioning itself as the premier nearshoring destination for companies looking to maintain trade stability, cost efficiency, and access to the U.S. market. This moment presents a historic opportunity for the island to solidify its status as a key player in global pharmaceutical and medical device manufacturing, not only safeguarding its economic future but expanding its role in critical global supply chains.

Appendix

Target	Dates	2024 Import Level	Applicable Rate	Authority
By Country or Region				
Canada	Announced Feb 1 Sheduled Feb 4 Delayed to Apr 2	$292 billion non-energy $120 billion energy	**25% non-energy** **10% energy**	IEEPA
Mexico	Announced Feb 1 Sheduled Feb 4 Delayed to Apr 2	$504 billion	**25%**	IEEPA
China	Announced Feb 1 Effective Feb 4 Increasing Mar 4	$430 billion plus de minimis	**10% initially** **increased to 20%**	IEEPA
European Union	Announced Feb 26	$598 billion	**25%**	Unknown

Source: Tax Foundation research

Updated on: 06-Mar-25

Target	Dates	2024 Import Level	Applicable Rate	Authority
By Goods & Products				
Steel and Aluminum	Announced Feb 10 Effective Mar 12	Ending steel exemptions $29 billion Ending aluminum exemptions $12 billion Expanding derivatives $44 billion	**25%**	Section 232
Autos	Announced Feb 12 Effective Apr 2	Motor vehicles $224 billion Motor vehicle parts $83 billion	**25%**	Unknown
Copper	Investigation initiated Feb 25 Report due Nov 22	$17 billion	**Unknown**	Section 232
Reciprocal	Announced Feb 13 Recommendations due April 1	Unknown	**Unknown**	Unknown
Semiconductors and Pharmaceuticals	Announced Jan 27 Rate specified Feb 18 Effective date unknown	Unknown (products and categories have not been specified)	**25%+**	Unknown
Timber, Lumber, Derivatives	Announced Mar 1 Report due Nov 26	Wood and wood products $22.9 billion	**Unknown**	Section 232
Agricultural Products	Announced Mar 3 Effective Apr 2	Unknown (products and categories have not been specified)	**Unknown**	Unknown

Source: Tax Foundation research