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Free-trade agreements and Puerto Rico

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Free-trade agreements have changed the way imports and exports work internationally. The free trade between countries means the unhindered flow of goods and services between them and is a name given to economic policies and parties supporting increases in such trade.

The concept of free trade can refer to the international trade of goods or services without tariffs or other trade barriers; the free movement of labor and capital between countries; and the absence of trade-distorting policies, such as taxes, subsidies, regulations, or laws, that give domestic firms or goods an advantage over foreign ones.

Puerto Rico has been affected by free-trade agreements in many ways. Since the island operates under U.S. customs jurisdiction, and allows for free movement of people and goods between the island and the U.S., free-trade agreements entered into by the U.S. government influence local trade.

One of the recent treaties, the Central American Free-Trade Agreement (Cafta), opens the U.S. market to the Central American market.

This means new trade opportunities for local businesses between Central America and Puerto Rico. Local initiatives by the government have begun to take advantage of Cafta.

For example, former Gov. Sila Calderón opened communications with the Costa Rican government. Puerto Rico is Costa Rica’s 10th-largest trading partner. Costa Rica exports more than $150 million to Puerto Rico each year. Medical infusion equipment made up more than 50% of Costa Rica’s exports to the island. Other exports included beef, plastic containers, thread, and cables. Roughly 60% of Costa Rican exports to Puerto Rico are unfinished goods that are processed and finalized on the island, which means Puerto Rico benefits from extra jobs.

Each year, Costa Rica imports more than $15 million in Puerto Rican goods, such as filters, medicines, plastic, and beverage mixes.

Puerto Rico plays an important part in many U.S. free-trade agreements. This is due to the island’s important location. Dr. Pedro Valle Carlo, Ph.D., business administration professor at the University of Puerto Rico, Mayagüez campus, said, “There is something that can’t be changed in Puerto Rico: its privileged localization. It is the furthest point in the Americas when traveling west, or the first point you come into America from Europe, Africa, and the Middle East. It offers a tremendous opportunity to establish a port or airport so the shipments can be distributed to the rest of the Americas.”

According to Dr. Valle, the island has two other advantages, its bilingualism in language and in measurements.

“Our people are mostly bilingual, and in the import/export business this is an advantage. We are also mostly bilingual in measurement since we use the English and the metric systems. Logistics is slowly moving toward the metric system,” he explained.

Many local businesses see the benefit of free-trade agreements. P.R. Freight President Mike Padilla said free-trade agreements could have a positive impact on the local industries.

“Trade agreements could make Puerto Rico more competitive,” he said, adding, “It would open new markets.”

Archie Torrado, general manager of DHL Danzas Air & Ocean, agrees with this assessment. “Trade agreements could be very beneficial to the island,” he said.

However, there are hidden dangers to take into account. Since free-trade agreements allow for the import of products without tariffs, the local market could be flooded by cheaper products that compete with locally produced goods.

According to Roberto Aponte, attorney and law professor at the University of Puerto Rico's Law School and author of *Amor a la Americana* (Love the American Way), a study on the North American Free-Trade Agreement, one of the problems of free-trade agreements is they are negotiated on a national level, which doesn't take local aspects into account. For example, the U.S. can enter into an agreement that could be harmful to state-produced goods. There are mechanisms in place so the national government is aware of the needs of the States but, according to Aponte, these sometimes don't work.

Aponte said he foresees two major interrelated effects of free-trade agreements in Puerto Rico. First, there will be a loss of jobs in specific sectors due to competition. The law professor said Puerto Rico might lose a quantity of jobs in labor-intensive industries that might find cheaper labor elsewhere. The second effect is a boost in technological- and capital-intensive industries.

These companies might benefit from operating in Puerto Rico and might add more skilled jobs to the job market.

Trade Industry Lexicon

Imports: Goods or services that were produced abroad.

Exports: Goods or services produced locally and sold abroad.

Multinational corporation (MNC): A corporation that operates in two or more countries. Since it is headquartered in only one country but has production or marketing facilities in others, it is the result of previous FDI (Foreign Direct Investment).

Transnational corporation (TNC): A corporation that operates in two or more countries, but whose national identity is a matter of convenience only, and which will move its headquarters readily in response to incentives. (Similar to multinational corporation—MNC).

Sustainable development: Economic development that is achieved without undermining the incomes, resources, or environment of future generations.

Tariff: A tax on trade, usually an import tariff but sometimes used to denote an export tax.

Trade dispute: Any disagreement between nations involving their international trade or trade policies. Today, most such disputes appear as cases before the World Trade Organization's dispute settlement mechanism.

Trade liberalization: Reduction of tariffs and removal or relaxation of nontariff barriers.

Stabilization policy: The use of monetary and fiscal policies to stabilize gross domestic product, aggregate employment, and prices.

Structural adjustment: The reallocation of resources (labor and capital) among sectors of the economy in response to changing economic circumstances, including trading conditions, or changes in policy.

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