

ECONOMY

Nationalism trumps
stock market



Think Strategically: Trade War, Markets & 'Ay Bendito'

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What is a trade deficit you ask?: U.S. & China trade by number

A trade deficit is a difference between what is sold and bought from another country. U.S. and China trade totaled about \$648.5 billion in 2016. U.S. exports to China were \$169.8 billion, and Chinese imports were \$478.8 billion, which made the trade deficit with China a whopping \$385 billion in 2016.

Key trade facts with China

- China was the U.S.' 3rd-largest goods export market in 2016.
- China was the U.S.' largest supplier of goods imports in 2016.
- The U.S. had a services trade surplus of about \$38 billion with China in 2016, up 13.6 percent from 2015.
- Sales of services in China by majority U.S.-owned affiliates were \$55.2 billion in 2015, while sales of services in the U.S. by majority China-owned firms were \$5.7 billion.
- China holds \$1.17 trillion of U.S. government debt, and if there is a trade war, China could dump its U.S. debt holdings as a political weapon against the Trump administration.
- U.S. exports of agricultural products to China totaled \$21 billion in 2016, which is the U.S.' 2nd-largest market.

President Trump is looking into options to respond to China's acts

and practices involving unfair trade practices. The Trump administration has proposed \$150 billion in tariffs and includes a 25 percent tariff increase on specific products. Increases to tariffs are from aerospace to machinery. The U.S. trade representative has been at odds with China's discriminatory technology-licensing practices and has filed claims through the World Trade Organization dispute proceedings.

Trump states China is "a threat to [U.S.] American innovation;" the President is supporting his actions from findings from an investigation of Chinese acts, policies and practices related to technology transfers, intellectual property and innovation.

The investigation concluded that China uses foreign ownership restrictions, such as joint-venture requirements and administrative reviews, and licensing processes to force or pressure U.S. companies to transfer technology to Chinese entities.

In China, in the new-energy vehicles market, foreign companies are required to transfer core technologies to a joint venture and disclose all development and manufacturing technologies for the entire vehicle, thus placing the foreign entity at a disadvantage.

China practices at a glance

- China places restrictions on licensing of intellectual property and foreign technology to their

country but does not put the same limits on contracts between two Chinese enterprises.

- China directs and unfairly facilitates investments and acquisitions to generate large-scale technology transfers from U.S. companies to Chinese entities.
- China conducts and supports cyberintrusions into U.S. companies to access their sensitive commercial information, such as trade secrets.
- Analysts estimate China's unfair acts, policies and practices cause tens of billions in damages to the U.S. each year.

While it is true many of President Trump's economic arguments have been perfunctory and unskilled, this time they are correct. A report to Congress by the Office of the U.S. Trade Representative in many ways lays out that China has failed to enact economic reforms, thus using the unorthodox methods by Trump may work. The effect of his nationalism has already had an impact on the stock market, which fell from 24,682.31 on March 21, 2018, to 24,086.68 on April 6, 2018, or a loss of 596.63 points.

Big miss on job growth

Job-growth numbers show the economy only added 103,000 jobs in March, which was slower than previous months and well below expectations of 185,000 new positions. The jobs-growth miss is attributed to trade-war concerns.

Final Word—Mexican standoff P.R. style: 'Ay bendito' is not translatable!

The governor of Puerto Rico and Financial Oversight & Management Board (FOMB) have been establishing their differences in a series of letters outlining their opinions on how to approach fiscal balance. The FOMB is seeking revisions in three broad areas: Baseline projections; structural reforms; and fiscal measures.

Gov. Rosselló suggests the revisions are "a significant step backward in achieving alignment on critical issues necessary to improve the lives of the people of Puerto Rico."

However, FOMB chair José B. Carrión stated: "Broad and deep reforms are vital to Puerto Rico's future, and we will continue to work collaboratively with the government to get this right, ...stopping only when we have created a roadmap that is transformative for the island's economy."

The principal point of disagreement seems to be the FOMB's proposed structural reforms and fiscal measures. Listed below are some items of discrepancy:

- Revisions requiring legislative and executive action. This power remains with the Legislature and executive branch, and include labor and pension reforms, the creation of an Energy Commission and the Office of the CFO.
- Agency efficiency measures;
- Revisions that would alter existing laws or contracts;

- "Crudita": The FOMB suggests removing the \$470 million annual cap.
- Special revenue: Requires all revenue to flow through the general fund rather than to special revenue funds.
- Statistics Institute;
- Regionalization & county model: The FOMB rejected a transition to a county government model. The government feels the need to pursue this model.

The governor claims a government-workforce reduction of 100,000 employees would be achieved through early retirement, and cost-saving recommendations are unnecessary with the government's plan, which would deliver a \$5.6 billion surplus in six years.

There is much more than meets the eye with these discrepancies; one thing is for sure: no politician or government has been able to fix Puerto Rico's ills by their own free will. The temptation to seek votes and run for re-election is too high and the \$900 million in increased spending for the government's fiscal plan and \$100 million for municipalities have re-election efforts written all over them.

So, we say it again: *Ay bendito* is not translatable.

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