

ECONOMY

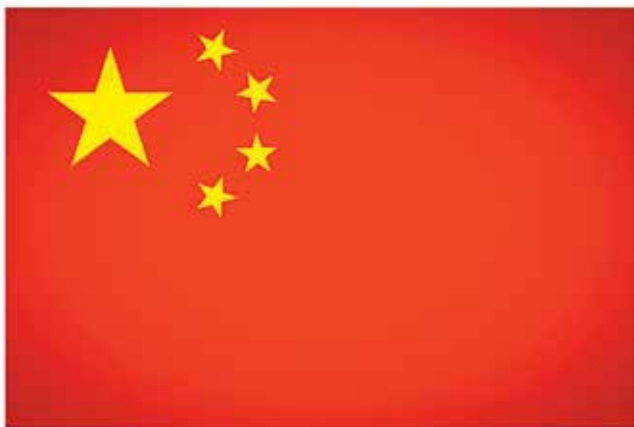
These are times of investment opportunities

THINK STRATEGICALLY:

The Dying Art of Disagreement

As USMCA Trade Agreement is Reached, Trump Escalates Trade War With China; Intelligent Disagreement is Lifeblood of Developing Society

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



U.S. Tramples on trade

The U.S., Mexico and Canada reached a trade agreement that would allow their previously implemented tariffs on steel and aluminum exports to the U.S. to be pared back. It is noted that the heavy hand of political wrestling that was involved in this tariff elimination was part of proposals lawmakers made to vote on the U.S.-Mexico-Canada Agreement, known as the USMCA. It would not be surprising if the U.S. implements quotas on Mexican and Canadian exports. In a statement at an event last Friday, Trump said, "Hopefully, Congress will approve the USMCA quickly."

This deal lifts tariffs of 25 percent on steel and 10 percent on aluminum that the U.S. implemented on both Mexico and Canada more than a year ago.

As for the renewed U.S.-China trade war, it is noted that President Trump is indeed correct to rekindle the tariff war with the Asian nation because it reneged on a deal that would have implemented a permanent tariff system between the two countries.

The impact on China will be higher if all its exports to the U.S. are taxed at 25 percent. The U.S. exported nearly \$120 billion in goods to China in 2018 and China sold \$540 billion in products to the U.S. According to a recent economic

poll, the impact to China's gross domestic product (GDP) is said to be between 1.2 percent and 1.4 percent, which will create havoc for the Chinese economy.

President Trump decided to escalate the trade war on the very same weekend of Beijing's 100th anniversary.

Week in markets: Tariffs impact markets

The new round of tariffs on Chinese products is the principle reason the market started the week with a 600-point drop. While in the latter part of the week, investors looking to take advantage of lower stock prices drove the market to a somewhat subdued downturn. Signs of progress and hopes of an impending trade deal in recent months helped pave the road for increases in U.S. and global equities. Even so, the Dow Jones, S&P 500 and Nasdaq are all in double-digit returns for 2019.

The Dow Jones Industrial Average closed the week at 26,764.00, a loss of 64.36 points, or 0.25 percent, with a year-to-date (YTD) return of 13.60 percent; and the S&P 500 closed at 2,859.45, falling 11.27, or 0.39 percent, and a YTD performance of 17.50 percent. The Nasdaq closed at 7,816.29, a drop of 94.30, or 1.19 percent, and a YTD return of 23.00 percent. Meanwhile, the U.S. Treasury's 10-year note fell to 2.39 percent with a YTD return of minus-0.16 percent.

Dow loses 400+ during U.S.-China trade war

March 2018

Round 1: Tariffs on steel & aluminum imports announced on multiple countries; Dow falls 491 points.

Market Close Comparison	5/9/2019	5/17/2019	Change	YTD
Dow Jones Industrial Average	25,828.36	25,764.00	-0.25%	13.60%
Standard & Poor's 500	2,870.72	2,859.45	-0.39%	17.50%
Nasdaq	7,910.59	7,816.29	-1.19%	23.00%
U.S. Treasury 10-Year Note	2.53%	2.39%	-5.38%	-0.16%

Round 2: Steel & aluminum tariffs implemented; Dow falls 1,150 points.

June 2018

Round 3: Tariff exemptions eliminated for EU, Canada and Mexico. EU and Canada announce tariffs on commodities and consumer goods; Dow falls 973 points.

May 2019

Round 4: New tariffs on \$200 billion in China imports were being implemented; the Dow falls 1,180 points.

The markets have been down this road before as they react to the news, with many 10 percent corrections and too many market retractions to count. These are times of investment opportunities.

Final word: P.R. & the dying art of disagreement

On the 100-mile by 35-mile island of Puerto Rico, we disagree about a variety of issues, including status, race, environment, healthcare, trade, public policy, municipalities, equality, political parties, candidates and our leaders.

Most people express their views in the nearby *cafetin*, bar, church, workplace, newspaper, radio and the most favored, on social media. On social media, we see a Puerto Rico that has turned both hurtful and virulent with personal rants that have become embittering to a pulp.

One thing no one disagrees with is that we all want a bright future for Puerto Rico, and we all would like to see the island thrive and prosper.

For once, we would like to see debates not based on not knowing the facts or a misunderstanding; we want to see disagreements that develop based on comprehension, from having thought about and examined the ideas of those having different points of view. If you must disagree with someone, you must first thoroughly understand the subject matter, you must read, research, listen and observe. As we continue to disagree, we must provide those whose ideas we do not favor with moral respect, sympathize with their motives and line of reasoning. We must always keep an open mind for an opportunity to be persuaded by the other person's line of thinking.

As Puerto Ricans have closed their minds to other people's opinions, this phenomenon has had an impact on all colors, races, social statuses,

professions and even our leaders. In my view, when we disagree intelligently, it means we are all thinking and evaluating other points of view. I was brought up to believe that where there is intelligent disagreement, there is the lifeblood of any developing society.

As we witness the bickering with the government, Legislature, municipalities and overall society on one side with the Financial Oversight & Management Board (FOMB) on the other, I wonder if those doing the opposing have stopped to think for an instant.

- Who caused Puerto Rico's bankruptcy?
- Why does the FOMB exist?
- Why does Puerto Rico's central government owe \$340 million to the PayGo pensions and then doubles down and says it will pick up the tab for municipal pensions?
- Why does the government not pay its water or electric bills?
- Why are more than 50 municipalities in deficit?
- Why do we have two bankrupt monopolies—the P.R. Electric Power and Aqueduct & Sewer authorities?
- How will Puerto Rico's so-called economic improvement look when we begin to pay our bonded debt?
- When did the "dying art of disagreement" die in Puerto Rico? Probably two generations ago.
- When governors, senators, representatives, mayors and any other elected officials view their election as a permanent job, and not as an opportunity to serve the greater good.
- It died when the right sound bite was better than telling the truth to the people.
- It died when we gave away Section 936 for nothing, forever exposing the fragility of our economic model to advance an ideal.
- It died when we stopped respecting our governors, senators, representatives and mayors, and vice versa.

As our population dwindles from its high of 3.79 million in 2002 to 3.1 million people in 2018, any politician must wonder how their collective policies have made 900,000 Puerto Ricans leave their country in 16 years.

"I don't think you can put a monetary value on the damage that our political class has done to three generations of Puerto Ricans."

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.