

ECONOMY

Path set for radical change

THINK STRATEGICALLY: Change...Change... Are You Ready?

Rally Behind new Governor and Allow Economy, Investments to Improve; Political Turmoil Cost Economy \$1 Billion

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We might think Puerto Rico has had a tough summer, and yes, in every measure, most every Puerto Rican can agree. It is not reasonable to have had three governors since Aug. 2, with now-former Secretary of Justice Wanda Vázquez sworn in as governor on Aug. 7 by presiding Supreme Court Chief Justice Maite Oronoz. The path is set for a radical change in the manner in which politics is conducted in Puerto Rico. Since 1948, all our governors have been elected by popular vote and, in the view of the New Progressive Party (NPP) majority in the legislature, for the post of governor, an elected official is favored rather than an appointed one. In Resident Commissioner Jenniffer González's case, she received the most votes, 718,591, in the 2016 elections, compared to former

Gov. Ricardo Rosselló, who got 660,510 votes. In other words, González received 58,087 more total votes.

In the days that followed the new governor's ascension to the post, the NPP leadership rallied behind the resident commissioner to request she be named secretary of State, to then allow her to become governor. Gov. Vázquez stated she could designate González as secretary of State but intended to finish her term as governor on Jan. 2, 2021.

While this new political situation is being sorted out, depending on how Gov. Vázquez manages her latest post, we may find it refreshing to have a governor who does not respond to usual party pressures, does not care about getting re-elected, who would assume the hard decisions that have eluded most elected officials, and the stage is set for Gov. Vázquez to rise to the occasion and prove every skeptic wrong.

Week in markets: Volatility rising; China goes nuclear with its renminbi

The stock market's volatility has risen sharply in the past three weeks as the U.S.-China trade war has taken a turn for the worse. As all global markets reacted negatively to China going nuclear with its renminbi (official currency of the People's Republic of China) and weaponizing the trade war.

The U.S. Department of the Treasury took the step of labeling China a currency manipulator when that nation

took concrete steps to devalue its currency as a direct effect of the U.S.-China trade war. The renminbi fell to the lowest level in more than 12 years. According to U.S. Treasury Secretary Steven Mnuchin, the U.S. will now engage with the International Monetary Fund to eliminate any unfair advantage created by China's currency manipulation actions.

The U.S. stock market finished lower for the third-consecutive week, with bond yields falling to their lowest level in three years. However, the outlook is still positive based on resilient economic expansion, modestly rising corporate profits and still-low interest rates.

The Dow Jones Industrial Average closed the week at 26,287.44, for a loss of 197.57, or minus-0.75 percent, and a year-to-date (YTD) return of 12.70 percent. In addition, the S&P 500 closed the week at 2,918.65, for a loss of 13.55, or minus-0.46 percent, and a YTD return of 16.40 percent. The Nasdaq closed the week at 7,959.14, for a loss of 44.93, or minus-0.56 percent, and a YTD return of 20.00 percent. Meanwhile, the U.S. Treasury's 10-year note took a loss during the week, closing at 1.74 percent, or a drop of minus-5.43 percent, with a YTD return of minus-0.95 percent.

Final word: Improving P.R. investment climate

A reliable, stable and consistent investment climate fosters productive private investment from every sector, which is the engine for gross domestic product growth, jobs growth and eradicating poverty. An improved investment climate expands the depth and variety of corporations while creating new, enhanced services; it improves the goods available and ultimately reduces the cost of doing business. The summer of 2019 and its political turmoil have cost the private sector more than \$1 billion in decreased economic activity and investments. This cost is a significant impact. An improved investment climate creates efficient financial markets, improves infrastructure investment and improves the lives of people who directly or indirectly work or benefit from the establishment of new entrepreneurial concerns. If you have any doubt, take a drive from

Caguas to Humacao or from Cataño to Manatí, and you will note how every community has benefited from the growth of the pharmaceutical sector in each of these areas.

Firms that invest in Puerto Rico are here to make profits, and the capital activity they create allows the island to grow. Their investment decisions are impacted by their ideas, capabilities, strategies and assessment of the opportunities and incentives for particular taxes and locations.

Puerto Rico was once the king at attracting foreign investment. Since the late 1990s, the island has lost its way.

Seeking to improve government policies and behaviors that shape the investment climate matters not only for the firm but should also matter to every citizen. To improve Puerto Rico's investment climate, it is key to consider all areas where the government has a strong influence, including:

Costs

- Corruption;
- Taxes;
- Regulatory burdens, red tape;
- Infrastructure and finance costs;
- Labor market regulation.

Risks

- Political risk;
- Policy predictability and credibility;
- Macroeconomic stability;
- Rights to property;
- Contract enforcement;
- Expropriation.

Barriers to competition

- Regulatory barriers to entry and exit;
- Competition law and policy;
- Functioning financial markets;
- Infrastructure.

Our investment climate has been suffering in the same way our country has over the past few years. Improving the investment climate has to be the highest priority of the government of Puerto Rico. We must be open to increased entrepreneurship, innovation and exports while breaking into new markets.

We must work hard to recover our credibility, brilliance and strengths in attracting new activities to Puerto Rico that, in turn, create thousands of jobs and new investment.

The best way to eliminate inequality and poverty is by creating and distributing wealth all around Puerto Rico, and that is an aspiration we should all join to achieve.

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

Market Close Comparison	8/9/19	8/2/19	Change	YTD
Dow Jones Industrial Average	26,287.44	26,485.01	-0.75%	12.70%
Standard & Poor's 500	2,918.65	2,932.05	-0.46%	16.40%
Nasdaq	7,959.14	8,004.07	-0.56%	20.00%
U.S. Treasury 10-Year Note	1.74%	1.84%	-5.43%	-0.950%