

# ECONOMY

Leaders in Puerto Rico, Hong Kong pull bills after pushback

THINK STRATEGICALLY:

## Every Storm Runs Out of Rain

Group Warns that Other Countries Cashing in on Trade War; 'We the People' Rising Up Globally

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



### Every storm runs out of rain: Who is winning U.S./China trade war?

Have you ever realized that “every storm runs out of rain” and, while the tempest between the U.S. and China it still going on, it will eventually run out of rain. Many are wondering which country is winning the trade war between the U.S. and China, and the answer is Vietnam. The growth of China’s industrial production slowed dramatically, to the lowest since 2002, or more than 17 years ago, to a dismal 5 percent in May 2019, and this is down from the 5.4 percent gain reported in April. The reduction points to declines in automotive manufacturing, mining and textiles. The export-manufacturing industry is also expected to continue low demand in the near term, with a bleak outlook for production. U.S. industrial production, however, increased 0.4 percent in May, after having fallen 0.4 percent in April. The manufacturing and mining index gained 0.2 percent and 0.1 percent, respectively. Nonetheless, neither side

can claim a clear victory. However, when reviewing data from other countries, some significant winners in the trading scene are noted, including the following:

- **Argentina:** Soybean trade
- **Chile:** Copper, soybean
- **Malaysia:** Semiconductors, electronics
- **Taiwan:** Phone parts, office machines
- **Vietnam:** Phone parts, automatic data processors, furniture.

Among these countries, the biggest winner has been Vietnam, which increased its trade and gained more than 7.9 percent of its gross domestic product (GDP) from it. With its economy rising at 7 percent so far in 2019, you might think it is the right time to invest there. Well, not so fast. Vietnam still has limitations on foreign ownership of 25 percent and many other restrictions on investment. In addition, Taiwan’s Foxconn, one of Apple’s principal iPhone manufacturers, has stated it is ready to absorb all of China’s iPhone production and move to Taiwan. The global trade

is making the best of the situation with Vietnam the clear winner.

### Week in markets: ‘Something wicked this way comes’

Surprisingly, this past week was one of the slowest in months, with only the mega-merger between United Technologies and Raytheon, which when combined will be one of the world’s biggest defense companies with sales of \$74 billion. The combined company, to be renamed Raytheon Technologies, will be bigger than Lockheed Martin and Northrop Grumman.

The Dow Jones Industrial Average closed the week at 25,089.61, or a loss of 893.73, or 3.44 percent, and a year-to-date (YTD) return of 7.46 percent; the S&P 500 closed at 2,886.98, for a

gain of 13.68, or 0.47 percent, and a YTD return of 15.13 percent. The Nasdaq closed at 7,796.66, for an increase of 54.56, or 0.7 percent, and a YTD return of 16.96 percent. Meanwhile, the U.S. Treasury’s 10-year note remained steady at 2.08 percent.

As for the U.S.-China trade war, a trade group—aptly named Tariffs Hurt the Heartland and comprising more than 661 U.S. companies including Walmart, Target and Costco—joined with an array of retailers, manufacturers and technology companies to issue a warning about the ill effects of continuing a U.S.-China trade war. The companies wrote directly to President Trump outlining the impact the imposed tariffs are having, the long-term impact on their business, the potential damage to the U.S. economy and the hundreds of thousands of U.S. job losses. U.S. companies are paying \$2.7 billion monthly in tariffs on imports, which translates roughly to \$810 a second on every U.S. consumer.

The numbers stated by Tariffs Hurt the Heartland do not include the retaliatory tariffs China has imposed, which are causing exports to nosedive, as well as the collateral effects on the U.S. economy and, more importantly, the added volatility and uncertainty that has ensued for investors. Visit [www.tariffshurt.com](http://www.tariffshurt.com) to get a broader perspective of the trade war.

One of the key barometers of the current economic expansion has been consumer spending, which represents the fuel for this 10-year extension. Consumer spending accounts for 66 percent of the U.S. GDP, which had been averaging 2.6 percent during 2018, and fell to half that rate in the first three months of 2019. This fact, combined with a much-weaker-than-expected May jobs reports, adds to the overall concern that “something wicked this way comes” to the U.S. stock market.

### Final Word—Every storm runs out of rain: Hong Kong, religious liberty, people power

If we needed another example of how “Every Storm Runs Out of Rain,” this past week there were two perfect examples of the power “we the people” have when our leaders produce

legislation that has an impact on our moral compass or freedoms.

In Hong Kong, two million of its citizens began protesting when the city’s chief executive, Carrie Lam, proposed legislation that would have allowed citizens to be extradited to mainland China. The main argument of the protest is that Hong Kong citizens feel they must maintain their autonomy from mainland China. The prolonged protest continues even though Lam stopped the legislation and publicly apologized to a massive, angry and recalcitrant sea of people filling the city streets around government office buildings. After facing six hours of protest, the Hong Kong Government recanted and suspended the bill with a statement from Lam stating that her government has disappointed her people.

Moving closer to home, and filed by Gov. Ricardo Rosselló, the Puerto Rico House of Representatives passed HB 2069, or the so-called “religious liberty” bill, with a vote of 34 in favor and 13 against, during LGBTT+ Pride Month. This legislation, as presented, creates the foundation for selected discrimination against residents who would request service from any division of the Puerto Rico government, Legislature, judiciary, municipality or agency. The law, as presented, would have granted government employees the right “to act or abstain from providing services” according to their religious beliefs.

From this brief explanation, it appears the governor does not believe in the separation of church and state. The measure outlines that every government employee must be allowed reasonable accommodation “to provide or not provide services” to those residents who have religious beliefs different from their own. This “religious beliefs bill” is a perfect example of all that is wrong in Puerto Rico. Instead of focusing on uniting as a people, the governor and Legislature have chosen to lay the groundwork to create selective discrimination and hate based on religious beliefs. After the bill became public, the country objected and superstars Ricky Martín, Ednita Nazario, René Pérez, Kany García and others openly opposed the legislation as an instrument for hate and discrimination. After the pushback, Rosselló retired the bill, and with it, the Storm Ran Out of Rain.

Market Close Comparison	6/14/2019	6/7/2019	Change	YTD
Dow Jones Industrial Average	25,089.61	25,983.94	-3.44%	7.46%
Standard & Poor’s 500	2,886.98	2,873.34	0.47%	15.13%
Nasdaq	7,796.66	7,742.10	0.70%	16.96%
U.S. Treasury 10-Year Note	2.08%	2.08%	0.00%	-0.060%

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