TRADE, TRANSPORT AND THE DILEMMA OF A NEW WORLD ORDER: GLOBALIZATION OR PROTECTIONISM?

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Buenaventura
Clients & Collaborators

- Commonwealth Trading Partners
- JHConsultants
- Sociedad Portuaria Buenaventura
- SAAB
- IOS Partners
- ALCOA
- Cifro
- UPME
- Cardno
- Caacupe-mi
Over 25 Years of industry experience...

Specialized consulting for infrastructure with an emphasis in ports and harbors.

Processing Big Data to provide international trade business intelligence to increase your market share, with two successful products, DuPort Data for ports DuTrade Data for enterprises

Outsourcing of labor intensive engineering services at hourly rates 45% - 65% lower than U.S commercial rates.
Buenaventura Challenge

Transshipment

731,000 TEUs

60,000 TEUs
Expand Buenaventura

Aerial reconnaissance with Drones for traffic planning and design
Agenda

• We are certainly uncertain!
• The economic and trade outlook
  • Globalization?
  • Protectionism?
• Key points
Who would have thought?

WORLD'S BIGGEST SHIPPING LINES

Maersk + Hamburg Sud
MSC
CMA CGM + APL
COSCO + China Shipping
Hapag Lloyd + UASC
NYK + Mitsui OSK + Kawasaki
Evergreen
Yang Ming
OOCL
Hyundai

MARKET SHARE

Alphaliner
Who would have thought?

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MARKET SHARE

Alphaliner

53.5%
Who would have thought?

Venezuela boils over. Thousands are moving to Colombia and Brazil.

GLOBALISM IS NOT FUNCTIONING HERE
Who would have thought?

We elected a new head of the free world.

USA now considered:
• Arrogant
• Intolerant
• Dangerous

What is ahead?
Washington Uncertainties

• **US trade policy – unclear at best**
  • Only if the USA has a trade surplus?
  • Retaliation, but for the wrong reasons

• **Port infrastructure funding?**
  • Perhaps a big boost – smoother supply chains
  • Washington can help, but . . .
These 8 guys have the same wealth as the bottom half of the world’s population – 3.5 billion people
Who would have thought?

The TPP was torpedoed!

Time to renegotiate and rebuild

Japan may do it without the USA

Time for the Pacific Alliance to help
Who would have thought?

Autonomous ships without crews

Source: http://www.digitaltrends.com/cool-tech/rolls-royce-cargo-ships/
Agenda

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The world outlook is . . .

Mild acceleration . . .

<table>
<thead>
<tr>
<th>Real GDP (%)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>3.1</td>
<td>3.2</td>
<td>3.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Inflation: Not an issue in general
Europe: More stable, but still a museum
China: Continued strength
USA: 2.3% but ?????

Source: Economist Intelligence Unit, & IMF’s World Economic Outlook Oct 2017
In the short term, the economic outlooks are fairly positive, but slow

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>3.1%</td>
<td>2.0%</td>
<td>1.8%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Chile</td>
<td>2.1%</td>
<td>1.7%</td>
<td>1.5%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>3.7%</td>
<td>3.8%</td>
<td>3.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.5%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Panamá</td>
<td>5.8%</td>
<td>5.7%</td>
<td>5.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Peru</td>
<td>3.3%</td>
<td>3.9%</td>
<td>2.7%</td>
<td>3.9%</td>
</tr>
<tr>
<td>USA</td>
<td>2.5%</td>
<td>1.6%</td>
<td>2.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>4.9%</td>
<td>4.7%</td>
<td>4.5%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Argentina</td>
<td>2.1%</td>
<td>-1.3%</td>
<td>+2.6%</td>
<td>+2.9%</td>
</tr>
<tr>
<td>Brazil</td>
<td>-3.8%</td>
<td>-3.2%</td>
<td>+0.6%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>-5.7%</td>
<td>-18.6%</td>
<td>-17.0%</td>
<td>-2.7%</td>
</tr>
</tbody>
</table>

Sources: IMF July 2017, LatinFocus, TradingEconomics, BBVA, FocusEconomics. DUAGA
The Economist Intelligence Unit, OECD, The World Bank, The Balance, Bureau of Economic
Trade’s share of the global economy is still climbing.

Globalization trend is *long-term* and has not reversed or stopped

*Source: IHS Global Insight*
The outlook – big picture

• North America and Europe are *slowly* pulling the train

• China exports to NA and EU are slow-moving

• Hence, exports to China have slowed

• Asia’s incomes are still very low and not big enough to fill the shoes of a slowing NA and EU

• And, the US Government’s new trade policies are *still* not clear
  • Maybe it’s “Friends Only”

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1.2%</td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>0.5%</td>
<td>0.6%</td>
<td></td>
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</table>

The opportunity to expand in trade was opened by the USA.
TEU trade will continue to grow – but slower than before

5.9% = long term potential

But

$\Delta$TEU/$\Delta$GDP ≠ 3X

The new ratio is closer to 1, depending on the port’s size, location, market share, willingness to invest

Sources: DUAGA
http://www.census.gov/population/international/data/idb/worldpopgraph.php
Carrier profits, finally, but ...

Carriers' Profit Margins
Jan-Jun 2017

Source: Alphaliner Newsletter 38 - 2017

$5 billion in profit, 2017 (Drewry)
Who would have thought that . . .

Some carriers didn’t learn their lesson?

MSC and CMA CGM have ordered 17 new ships of 22,000 TEU each

<table>
<thead>
<tr>
<th>Line</th>
<th>Number</th>
<th>Size (TEU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMA CGM</td>
<td>6</td>
<td>22000</td>
</tr>
<tr>
<td>MSC</td>
<td>11</td>
<td>22000</td>
</tr>
</tbody>
</table>
Largest ship to transit the expanded canal: 14,855 TEU

T. Roosevelt - Passing under the Bayonne Bridge

Source: Alphaliner Newsletter 37, 2017
Chinese port operators are adding terminal capacity faster than trade growth

Source: Drewry
Globalization vs. Protectionism
China vs. USA

- “Trade protectionism is shortsighted and narrow-minded, and it cannot fundamentally address the problems of unemployment and economic growth worldwide.”
  China’s Minister of Foreign Trade

- “Protectionism = Force”
  Henry George, Protection or Free Trade, 1905
  ...but the US Government seems to feel that the trade deals must be “better” in order to make America great again.

Closing the doors?
Balance of global investment in Latin America

NOW

+ 10 YEARS

China intends to invest $250 billion in LAM by 2020
Trade projections are $500 billion
Agenda

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Key Points

• NOW is the time for the Pacific Alliance to step in, expand, be more active
  – Time to really globalize
• Protectionism is rampant but it’s “old hat” and won’t make any country great again
  – Venezuela is proof!
• Latin America’s trade with the world will accelerate and conditions will improve
  – The USA is forcing Latin America to be more creative and self-reliant: a good thing in the end