

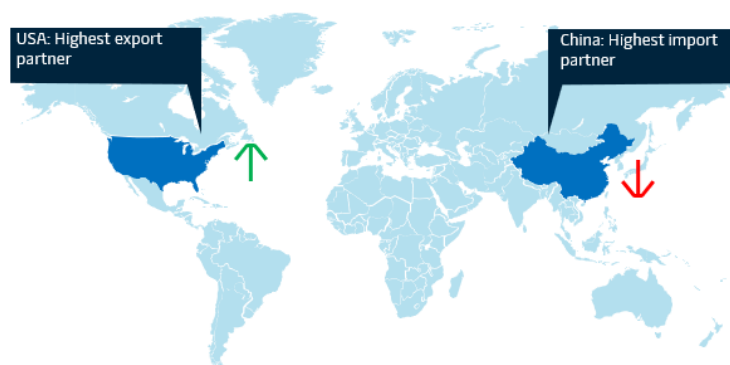
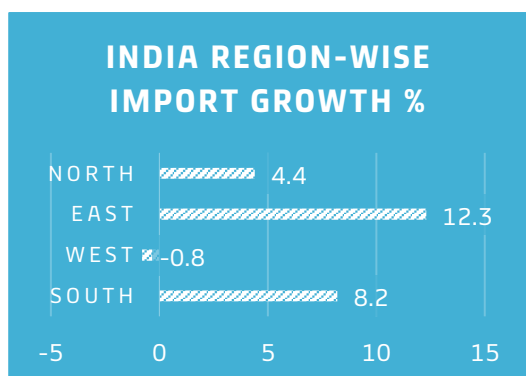


## Trade Report

**CONTAINERISED TRADE REMAINS FLAT, INDICATING  
GLOBAL SOFTENING AND WEAK DOMESTIC DEMAND**

### Q3 2019 INDIA TRADE REPORT

India's export-import container trade in Q3 2019 (July-September) remained flat as compared to global growth of 1.5%. The slowdown is aligned closely with the weaker domestic demand, as well as a reflection of the broad-based cyclical weakening of the economic environment in all the main global economies. The negative effects from escalating trade restrictions also weighed on trade growth in the quarter. The trade restrictions have reduced bilateral trade between the United States of America and China, and also led to shifts in trade structures, with global importers having shifted sourcing from China to other countries such as Vietnam, Taiwan, Bangladesh and Korea, with Thailand, Mexico and India also showing early signs of being next in line to benefit. Specifically in India, the economic uncertainty, tight liquidity, decline in global export orders and evolving domestic political scenario also affected the flow of investments and added to currency volatility. While imports into the country witnessed a subdued growth, the overall fiscal impact was nullified by an identical contraction in exports.



"The current slowdown witnessed in the last two quarters can be accredited to tight liquidity and working capital, weaker domestic consumption patterns and slower global growth. As the global economy continues to face challenges, and trade tensions between major economies ensue, many leading global importers have begun exploring trade alternatives to China. The USA has emerged as a strong trade partner with India showing growth in exports as well as imports.

India boosted its 'Ease of Doing Business' in World Bank's 2020 rankings. This provides a huge opportunity to entice multinationals and global investors to grow their trade with India."

**Steve Felder, Managing Director, Maersk South Asia**

#### **India wants to boost trade with China while protecting local interests**

China is among the top five import countries for India, however imports have declined. India is looking for greater access to the Chinese market as it seeks to arrest the fall in farm commodity exports.

Private companies from India and China signed more than 120 MoUs for export of various products from India, including sugar, chemicals, fish, plastics, pharmaceuticals and fertilisers.

**(RCEP) Regional Comprehensive Economic Partnership** seeks to create a free trade agreement in the Asia-Pacific region. However, India has been cautious to sign unless a deal was offered which would help protect the interests of local businesses and avoid flooding goods from China into the Indian market through third countries. Against this background, India has concluded its stand of not participating in the RCEP.



## INDIAN RETAIL, APPAREL, & TEXTILE FACING STRONG GLOBAL HEADWINDS

- The apparel exports are exposed to multiple threats like USA-China trade tension, Brexit uncertainty and almost flat/negative growth in major EU economies which could slow down the pace and make it challenging for apparel exporters
- Though India's apparel exports have revived during the current financial year, exports aim to grow by 4% Y-o-Y during 2020 after two consecutive years of contraction.
- The external environment for India's apparel exporters remains challenging, amid an uptick in activity on several free trade agreements among the key trading nations, which has intensified competition from nations having a cost advantage over India.



In terms of region-wise trends, the growth in India's apparel exports of the current fiscal was primarily driven by an approximate 7% Y-o-Y increase in exports to the USA market, while exports to the key European and the UK export market growth declined by 2-3% Y-o-Y during the period.

In addition to a general slowdown in the EU's import demand amid weakening of currency (with the Euro depreciating by 4% against the US dollar in H1 2019 vis-à-vis the average level in 2018), India's position in the EU market has been adversely affected by the preferred access to key competing nations such as Bangladesh and Vietnam, by way of free trade agreements.

These could make it increasingly more difficult for India's apparel exporters to maintain their competitiveness in its largest market, the EU, which accounts for ~35% of India's apparel exports. Apart from challenges in the EU market, retail trends in the US also remain unexciting, which could exert additional pressure on the order flow for India's apparel exporters going forward. Retail sales of clothing and clothing accessories in the US have remained flat during Q3 2019 vis-a-vis the corresponding period last year, following a comfortable growth of 5% during same time last year. Besides affecting order flow, this could potentially result in renegotiation of realisations as well as an elongated receivable cycle for exporters.

India's textile and apparel industry is **facing strong headwinds** as key competitors such as **Pakistan, Bangladesh** and **Vietnam** are given preferred access in India's biggest textile market — Northern Europe.

The external environment for India's apparel exporters remains challenging amid an uptick in activity on several **free trade agreements** among the key trading nations, which has intensified competition from **nations having a cost advantage** over India.

"The impact could be cushioned somewhat if India is able to capitalize on the likely opportunity, which may arise from imposition of additional tariffs on apparel exports from China to the US." **Felder added.**

## VARYING COMMODITY TRADE IN INDIA

### Seafood opportunity in China

China's **domestic protein production** is down by 5% in 2019 which means China will import protein (meat, dairy products, seafood etc.) from other countries. This is one of the main reasons why India has seen export growth to China as far as seafood and other refrigerated (Reefer) products are concerned.

The Indian government is still in talks with China to open the meat segment, however, it is currently moving through Haiphong.

In late first half of the year, China took some strict measures on illegal cross trades from **Vietnam**, and announced duty reduction for seafood, which is another reason for export growth in the region.

For reefer exports to the **South East Asia region**, vegetables and shellfish witnessed the highest growth at 13% and 8% respectively, while meat export growth remained flat.

### Government ban on onion exports

The Union Ministry of Commerce and Industry amended export policy of onions from free to prohibited in Q3, which amounted to banning of onions from export, with immediate effect.

The overall market for onion exports has contracted roughly by 26% Y-o-Y.

This move came to curb the export shipments of onions and help bring down soaring prices in the domestic market, resulting from floods in parts of the major onion growing states of Maharashtra and Karnataka.

Exporters are confident that this is a temporary cyclical issue and do not expect a major impact on the trade moving ahead.

### Global free trade agreements might impact India's reefer exports to EU

India's seafood exports to the EU are expected to drop in the coming period after **Vietnam** signed a free trade agreement (FTA) with the European Bloc in August. The agreement helps Vietnam export products to the EU without any customs duty.

Four cyclones (**Vayu, Hikka, Kyarr and Maha**) hit the Arabian sea this year, a first after 1902, causing erratic weather conditions leading to lower yield of seafood in the quarter.

### Fluctuating rice trade

In earlier quarters, rice was procured by the government in huge quantities, resulting in low exports in the subsequent quarters. Government also withdrew the incentive scheme for rice exports. Simultaneously, in the global market, Indian rice became expensive by USD 75-80/quintal, putting further pressure on Indian rice exporters.

The lack of a long-term rice export policy coupled with successive increase in procurement costs under the minimum support price (MSP) mechanism, have made rice exports uncompetitive for India.

### Paper and metal scrap continue to be top trade commodities

India serves as one of the growing countries for USA and EU recyclers looking for export markets, specifically for nonferrous and paper scrap.

India's consumption of scrap has grown exponentially in recent years. In fact, according to the Indian Manufacturers Association, **imports of paper and paperboard into India steadily increased** over the last seven years at a compound annual growth rate (CAGR) of 16% in value terms and 18% in volume terms.

India's import activity in **Q3 2019** increased due to price incentive caused by the declining value of mixed paper and some old corrugated container (OCC) grades on the global market, prompted by China's stricter standards for recovered fibre imports.

The Indian metal recycling industry is set to register an annual growth of 11%, however is in need of immediate policy intervention.





### INDIA AIMS TO DIVERSIFY BILATERAL TRADE WITH AFRICA

- Overall exports to Africa grew by 11% led by appliances & kitchenware, vehicles and seeds, beans, cereals and flour.
- Reefer commodities such as onions saw lower exports to South Africa due to the imposition of Minimum Export Price (MEP) by the Government in Q3 to control the domestic prices.
- **Kenya and Nigeria** being the usual export trade partners for India, Q3 saw an addition of **Djibouti** and **Tanzania** as export partners for India.
- **Import growth** from African countries to India **remained steady** at 2%; **fruit & nuts**, metal and wood being the top commodities.
- While the domestic auto industry remained weak, **India-made vehicles** and **auto ancillaries** saw growing consumer demand from numerous African nations.
- **South Africa, Ghana** and **Benin** form the top import origin destinations **for Indian vehicles**.



### MEDITERRANEAN - A STRONG MARKET FOR INDIAN REEFER PRODUCTS

- Exports from India to the region contracted by 9% with the exception of **Turkey**, which grew at 5% largely driven by **textiles and apparel, vehicles** and **plastic and rubber** from North and West India.
- While overall export growth fell, **refrigerated cargo (reefer)** exports from India to the region witnessed an increase, primarily fuelled by **meat, fish and shellfish**.
- While imports from the Mediterranean witnessed growth of 6%, imports from Turkey contracted, largely led by ores, slag and ash, foodstuff such as seeds, beans, cereals and flour, and salt, sulphur, **earths and stone, plastering materials, lime and cement**.
- On the import front, **paper, metal** and **plastic and rubber** led the overall growth.



## NEW TRADE OPPORTUNITIES FOR INDIA

### USA still among the top trade partners for India

- USA witnessed export trade growth of 12%, largely led by furniture, vehicles and textiles and apparel.
- Imports from the USA grew by 6%, largely driven by metals, plastic and rubber.

### Potential for India

- The ongoing trade tensions between the USA and China offers an opportunity for India to boost exports of as many 350 products, including chemicals and granite to these nations, as per a study by the Commerce Ministry
- Especially with better price stability in the USA market and the general increase in volumes, USA is a lucrative market for Indian pharma exports.

### Potential trade partners going forward

- Sugar exports in Q3 were weak, which resulted in Government announcing a subsidiary for sugar exports in September.
- To ease trade tensions, **Malaysia** is considering raising imports of raw sugar and buffalo meat from India.
- India has asked **Indonesia** to reduce import quota restrictions on the auto sector and has reiterated its demand for greater market access for reefer and agriculture exports. Indonesia has assured India that it will facilitate the sourcing of sugar and other reefer products such as musk melon, bitter gourd, grapes and pumpkins by reducing tariffs and regularising standards as per India's prerequisite.

*"Q3 witnessed solid movement of Indian sugar into Middle East countries. From mid-December, exports into East African countries such as Sudan, Somalia and Djibouti are expected to increase" Felder added*

Exports to USA  
witnessed a growth  
of 12% Y-o-Y

Paper imports from  
USA witnessed a  
strong import  
growth at  
26% Y-O-Y



### Region-wise exports and imports

- All parts of India except West India registered a contraction in exports.
- North India witnessed the highest contraction among the regions, which can be attributed to a slowdown in textiles and apparel exports, which grew only 3%.
- Middle East countries contributed significantly to trade growth from North and West India, with countries like Saudi Arabia and UAE each delivering double-digit growth. This growth can be attributed to the festive season of Eid that fuelled the demand further propelling the consumption in the regions.
- For South and East India, the USA, followed by Sri Lanka and the UK emerged as strong export trade partners.
- In the case of import trade growth, only West India remained static, whilst East and South India showed strong growth, followed by North India. Paper was a strong import commodity across the regions, delivering double-digit growth in North and West India.
- When looking at import trade partners for the regions, China delivered strong growth from North and West India, whereas the USA delivered strong growth from South and East India.





## GOVERNMENT REFORMS WILL PROPEL INDUSTRY GROWTH IN 2020

### Measures to boost exports

The Union Finance Ministry announced a slew of measures in Q3 to boost exports, including hike in interest equalization scheme, **automated GST tax credit refunds** for exporters, remission of taxes on export products to replace **Merchandise Exports from India Scheme (MEIS)**, among others.

The new measures include priority lending for exporters to address the liquidity crunch. As per the data from the Commerce Ministry, the Reserve Bank of India will release additional funds of Rs 36,000 crore to Rs 68,000 crore as export credit under priority sectors. Increasing the priority sector lending will benefit MSME (Medium, Small and Micro enterprises) and small exporters as they will be able to contribute more in exports moving forward.

Export Credit Insurance Scheme has been expanded to provide higher insurance cover to bank lending working capital for exports. An allocation of Rs 1,700 crore per annum has been made for the same. This is expected to reduce the overall cost of export credit including interest rates, especially to MSMEs.

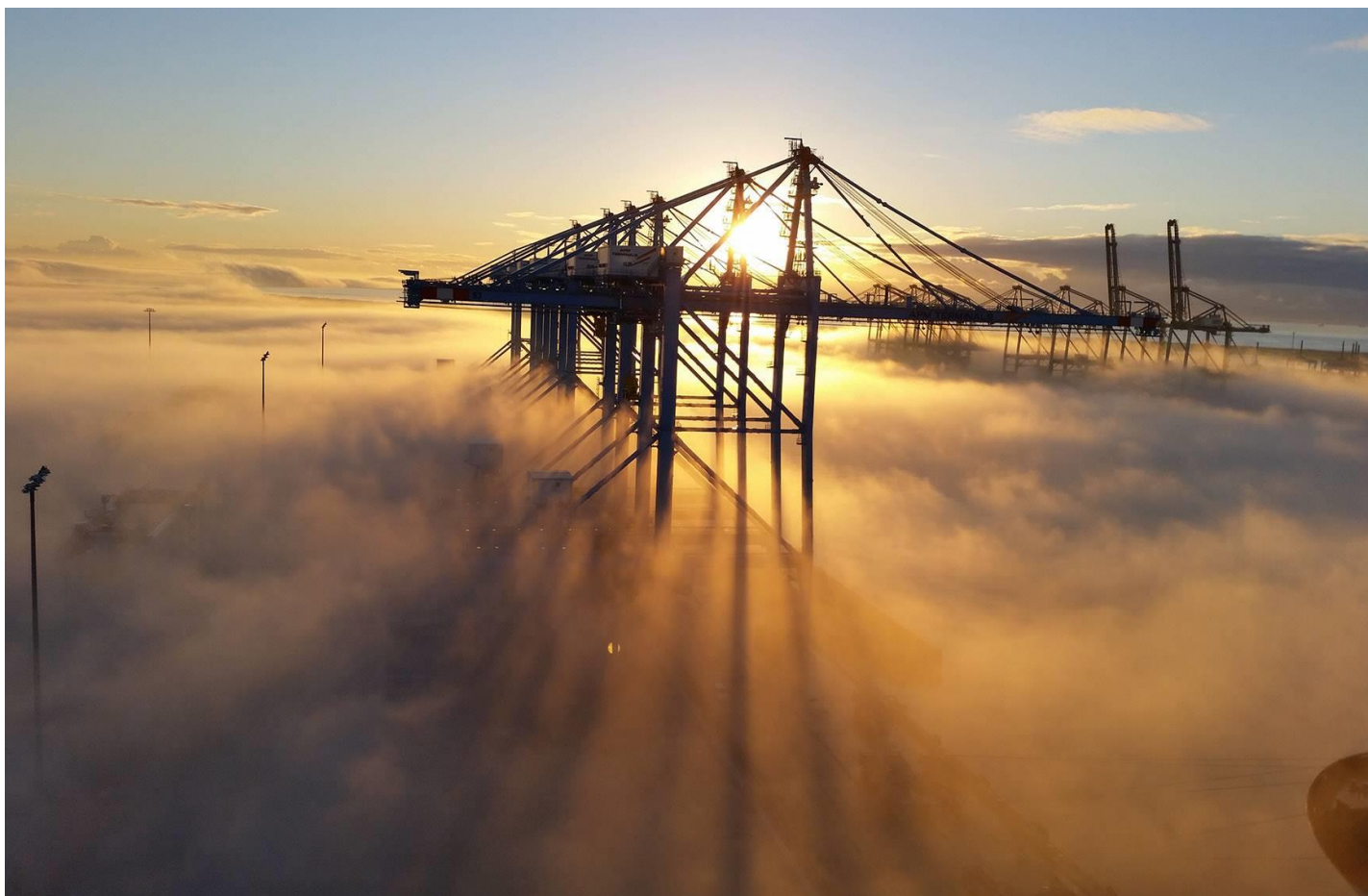
Existing Merchandise Exports from India (MEIS) will be replaced by the new Remission of Duties or Taxes on Export Product (RODTEP) to incentivize exporters from 1 January 2020.

**Confederation of Indian Industries (CII)** has also highlighted the need for developing an export strategy at the state level, based on states' comparative advantages to help boost the economy.

"The Government has ambitious goals of reaching to a USD 5 trillion economy. To achieve this, there has to be a focused approach in implementing reforms and measure to drastically improve the landside infrastructure to boost logistics further and adopt digitalisation as rapidly as possible. This will help catalyze the export growth, supported by robust policy reform. In its second term, the Government has a strong focus on procuring FDI inflows, structuring policy reforms and facilitating infrastructure development. Furthermore, an impetus on increasing industrial manufacturing while easing corporate tax structures will further prove to be an advantage to the Indian economy."

**Steve Felder, Managing Director, Maersk South Asia**





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#### About A.P. Moller – Maersk

**A.P. Moller Maersk** is an integrated container logistics company working to connect and simplify its customers' supply chains. As the global leader in shipping services, the company operates in 130 countries and employs roughly 80,000 people.

With simple end-to-end offering of products and digital services, seamless customer engagement and a superior end-to-end delivery network, Maersk enables its customers to trade and grow by transporting goods anywhere - all over the world. Get more information at <https://www.maersk.com/>

#### For more information visit:

**For more details, please contact:**

##### **A. P. Moller-Maersk**

Adhish Alawani

[Adhish.Alawani@maersk.com](mailto:Adhish.Alawani@maersk.com) / +91 7875557435

##### **Six Degrees BCW**

Aditya Karlekar

[aditya.karlekar@sixdegrees-bcw.com](mailto:aditya.karlekar@sixdegrees-bcw.com) / +91 9930933882