

INDIA TRADE REPORT

INDIA'S TRADE RECORDS SLOWER GROWTH THAN GLOBAL AVERAGE



Q2 2019

The start of 2019 marked an important milestone for India which, in its election year, was enjoying a healthy GDP growth and a consistent inflow of foreign investments, backed by steady consumption and a mildly growing production climate; in spite of a global economy that was already showing signs of strain, with trade tensions building and many developed countries contemplating measures to boost local spending and growth.

However, over the many months, both international factors – such as slowing trade growth, and growing trade tensions – coupled with domestic factors – such as rural consumer distress, tightening liquidity and a slow-down in key manufacturing sectors, have impacted the country's economic activity.

While the long-term growth perspective on the Indian economy remains positive, the short-term strain is being reflected across industries as well as in India's containerized trade, which has slowed to a mere 1% growth in Q2 2019. In the corresponding period last year, this stood at a healthy 9% growth, almost three times higher than the global growth average of 2-3%.

Both imports and exports were growing at a healthy rate during the same period last year at 8% and 9% respectively. However in Q2 2019, imports have grown at a meagre 2%, while exports have remained flat.

“The overall deceleration of trade growth reflects a broad-based slowdown across key economic sectors. Amidst increasing global volatility, a slower local economy and the USA's withdrawal of preferential access for certain Indian products, India's import-export trade is expected to continue to face headwinds in the coming months. However, the recently proposed export promotion scheme, coupled with a weaker rupee, is expected to boost Make in India and benefit multiple industries.”

Steve Felder

Managing Director - Maersk South Asia

“Additionally, there is immense opportunity for India to position itself as a beneficiary of the global trade tensions, provided it can attract more sourcing. In its second term now, the Government is extremely focused on continuing to enhance ease of doing business and reduce overall logistics costs for the industry through the new proposed draft National Logistics Policy, all of which is expected to benefit trade.”



India finds new allies in fast changing trade structures

The India-China bilateral trade, which touched a historic high last year, declined considerably in Q2 2019, signalling that rising protectionism and trade tensions between the USA and China are also impacting India's trade prospects. As a result, India's export growth to the world's most populous country saw a sharp decline from 222% growth in the corresponding period last year to 20% growth in Q2 2019. This was mainly led by a significant fall in the demand for India-made textiles and apparel, plastic and rubber, which were large export commodities in the corresponding period last year. Similarly, import growth from China also dropped by 22%, from 6% growth last year.

Another outcome of India's exposure to China's changing trade climate is the increasing import of certain types of waste paper, which are now restricted in China due to environmental concerns. The restrictions led to a decrease in waste paper prices in turn benefiting India which is a strong importer of the commodity.

Said Felder, *"In India, consumption of paper is growing at 6-7% annually, mainly driven by an expanding middle class, urbanisation and rise in disposable incomes. However, challenges surrounding availability of raw materials to be able to manufacture locally has led to an increase of waste paper imports to cater to this demand."*

He went on to add, *"Reduced bilateral trade between USA and China has led to various shifts in overall trade structures, with limited sourcing starting to shift from China to other countries such as Vietnam, Korea, Thailand, Bangladesh and Mexico. India has thus far not been a beneficiary, however we would hope that this will change"*

On the other hand, the increasing economic cooperation between India and Saudi Arabia led the latter to emerge as India's strongest export partner in Q2 2019, growing by 74% from a mere 1% growth last year. The key reason for this strong increase is the lifting of the export ban Saudi Arabia had imposed on Kerala's fruit and vegetable exporters in May last year after the Nipah virus outbreak. As a result, vegetable exports from India to the country grew by 413% in Q2 2019. Additionally, exports of tiles, stone & glass to the country registered strong growth of 381%.

"India's ties to Saudi Arabia have grown significantly over the past two decades, as the Kingdom has emerged to become India's fourth-largest trading partner during the last quarter."



India's exports to the USA strengthen in spite of GSP changes

India continues to negotiate with the USA for an exemption from the high duty imposed on certain steel and aluminium products and the resumption of export benefits to some domestic goods under the Generalised System of Preferences (GSP), as well as a greater market access for its products from sectors such as agriculture, automobiles, auto components and engineering. The USA on the other hand is demanding a greater market access through cuts in import duties for its agriculture goods, dairy products, medical devices, IT and communication items.

In the meantime, while India's export growth with the world stagnated, export growth to North America grew by 15% in Q2 2019. This was largely led by North India, which saw an increase of 18% this year as opposed to 1% last year. West and South India also contributed to overall export growth. However, export growth from East India contracted by 14% from a strong 32% growth last year.

A large part of this growth can be attributed to Indian shrimp exports to North America, which rose by 14% as compared to the same period last year.

Additionally, textiles and apparel, as well as metals, contributed to this growth curve.

Offering a perspective, **Felder said**, *"India is the second-largest fish producer in the world after China, accounting for nearly 6% of global fish production. However, there are growing concerns that India's shrimp export growth could potentially slowdown in the coming period to due to increasing competition from other countries, and stricter controls and tariff barriers being imposed by destination countries."*

The commodity that saw the sharpest fall in exports to North America was India-made vehicles, which slowed to an 11% growth from a strong 67% growth last year. A similar downward trend was witnessed with India-made vehicles being exported to Turkey which contracted by 23%, from 49% growth last year.

"The auto market is witnessing a drastic change in mood the world over. Growing emission concerns and increasing cost of ownership have become key deterrents to auto purchases, which is in turn impacting the business of auto ancillaries as well. The road ahead for this segment looks difficult and steel availability at international prices would be crucial to make India's automobile exporters competitive again."

On the import side, while domestic demand for textiles, apparel and accessories from North America grew, the demand for all other commodities declined considerably with fruits and nuts, vegetables and foodstuff being the hardest hit.

North India drives trade growth for the region at **18%** Y-O-Y

Dry commodities led the trade with North America in Q2

Textiles, apparels and accessories witnessed a **15%** growth in exports Y-O-Y

Solid growth in refrigerated cargo exports to Europe

India's import-export trade with Europe delivered an overall growth of 10% in Q2, largely driven by strong imports and stable exports. North and West India drove this trend, with a double-digit growth in imports, and a stable growth in exports; followed by East India.

Interestingly, South India witnessed a contraction of 2% in imports from Europe, where exports grew at a steady 6%.

Refrigerated exports from India to Europe remained strong, delivering a year-on-year growth of 10%. Interestingly however, pharmaceuticals exports – which had experienced a long period of growth – contracted by 6%; whereas shellfish and fruit and nuts were among the top commodities that drove the refrigerated growth with Europe.

India's trade with the Mediterranean countries was flat

Containerized trade with the Mediterranean region was flat compared to Q2 2018, primarily due to a 2% contraction in exports. North and West India primarily drove exports, delivering a modest 1% growth. When looking at imports, while West India delivered 9% growth, South and East India contracted by 7% and 9% respectively. East India however was prominent on imports from Europe. Given South India's shrinking imports from both Europe and the Mediterranean region, the import-export trade growth of South India has been impassive.

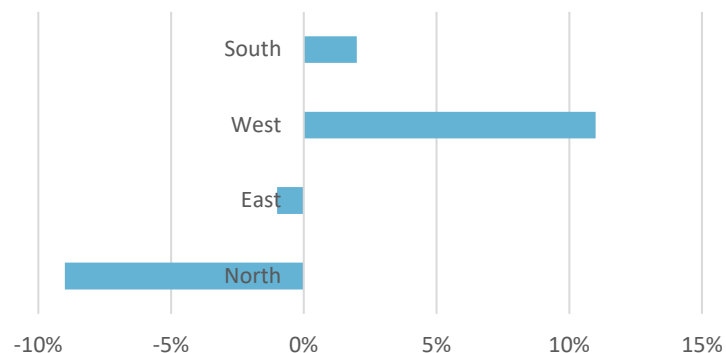
Refrigerated cargo exports to Northern Europe witnessed a **10% increase** Y-O-Y

UK becomes a strong import partner for East India from the North European region at **92% Y-O-Y**

Egypt became a strong partner for chemical imports from the Mediterranean region

West India leads India's overall import and export trade

Region-wise Export Growth in Q2 2019



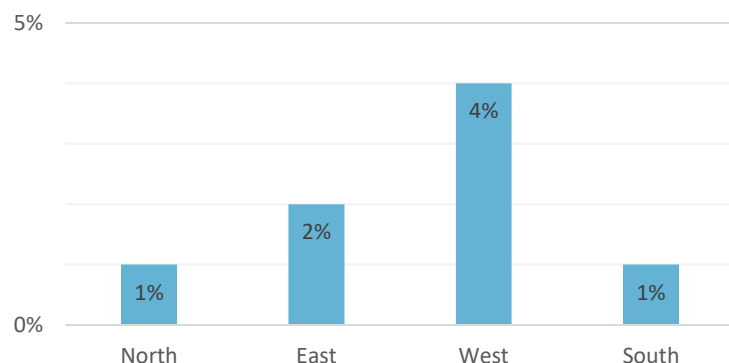
- Textile & apparel, tile, stone & glass and appliances & kitchenware were the highest exported commodities from the North and West of India with USA, Saudi Arabia & UAE being top export destinations
- Metals, textile & apparel and vehicles dominated the exports from South and East India with USA, UK and Sri Lanka being top export destinations

West India led India's export growth at **11%** Y-o-Y

Middle East especially Saudi Arabia became a strong export partner for **North & West India** in Q2

Imports to North and South India witnessed slow growth at **1%** Y-o-Y

Region-wise Import Growth in Q2 2019



- Paper, metal, appliances & kitchenware were the highest imported commodities in North and West of India with China, USA and UK being the top origins
- Fruit & nuts, metals and appliances & kitchenware were the highest imported commodities in South and East India with China, Ivory Coast and USA being the top origins

Way Forward 2019-2020



Lastly, adopting new technologies such as Blockchain and AI across the logistics network, and concerted efforts towards the improvement of infrastructure at ports and roadways will ensure last mile connectivity expanding market access of farmers, MSMEs and small businesses, thus driving economic growth and trade competitiveness of the country. This can in turn create an inclusive effect for the Indian economy in near future.”

Steve Felder
Managing Director, Maersk South Asia

“In addition to all the opportunities that lay ahead for India, the Government has also recognized the importance of global trade to propel the future growth of the country with the creation of a dedicated ‘Logistics Wing’ which will integrate and enhance the numerous elements of its logistics value chain, through single-point contact to ensure seamless, multimodal growth of the sector.

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/>

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