



## TRADE OF SAARC NATIONS AND INDIA'S CAD

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### ABSTRACT

**A**n important characteristic of the SAARC nations that they has abounded labour supply and has a comparative advantages in their production and international trade of many labour incentive manufactures. The common aspects of SAARC nations of their history, culture and economic and social development. Most of the SAARC nations are low and middle income developing countries. More than 70% of SAARC regions are captured by India both geographically and economically and the reaming nations of the SAARC borders has trade relationship only with India and not each others. Among SAARC nations India is the biggest economic power and industrialises trading partner. India has playing a significant role in promoting trade and economic corporation with SAARC nations in 2013-2014 the export of India with the SAARC nations is 1052.80 Rupees Billion and import is only 149.23 Rupees Billions. Most of the developing economies have a serious problem of CAD because their current account debit side is grater than credit side means the import of goods and services are greater than exports. India after the liberalisation when the new economic policy come in to force there are increasing growth rate recorded year by year in its CAD because the import of goods become started increasing and there are a very low growth rate recorded in the export of merchandise goods of the country however the export of services are increasing but this increase is not greeter than import of merchandise goods. A country undergoing Current Account Deficit results into foreign liabilities and debts with rest of world. This further leads to payback of valuable foreign exchange reserves.

**KEY WORDS :** SAARC, CAD, Merchandise goods, Liberalisation.

### INTRODUCTION

The CAD is said to be necessary for a growing economy, though it is recommended in a small amount. The sustainable CAD that is safe for India is said to be in the range 2.4-2.8 % of GDP. This is a result of a study by Rajan Goyal, Director in the Department of Economic and Policy Research, Reserve Bank of India [Omkar K. ,Shweta Pillai 2013]

In a very simple word we can say that current account deficit (CAD) is the deference between the debit

and credit side of current account the debit side of current account comprise the import of merchandise goods and services and the credit side of current account are export of merchandise goods and services. Most of the developing economies have a serious problem of CAD because their current account debit side is grater than credit side means the import of goods and services are greater than exports. India after the liberalisation when the new economic policy come in to force there are increasing growth rate recorded year by year in its CAD because the import of goods become

started increasing and there are a very low growth rate recorded in the export of merchandise goods of the country however the export of services are increasing but this increase is not greater than import of merchandise goods. A country undergoing Current Account Deficit results into foreign liabilities and debts with rest of world. This further leads to payback of valuable foreign exchange reserves. Substantial amount of foreign exchange are spent on paying out these debts. One important drawback of increasing external debt is decline in value of nation's domestic currency. Payment of foreign debts results in increase in demand of foreign currencies. This leads to devaluation of domestic currency and thus, enhances problems of foreign exchange crises. There are various factors which influence country's External Borrowings as well as Foreign Exchange Rates. One such important factor is Current Account (Trade Balance) Deficit. [Dr. Mehernosh B. Mehta]

Trade of goods and services is the important component of the current account India has a trade relationship with most of the developing and developed nation of the world due to India's demographical characteristics the demand of goods and services in India is much higher than many countries which are fulfilled by domestic productions as well as foreign imports. Most of the import need of India is fulfilled by the developed nations this imports are basically related to capital goods and besides it India is also count world largest exporter of

food grain and agriculture products. SAARC was formed in 1985 with the seven member countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka with the vision of welfare enhancement and opportunity to realise the full potential of the region. SAARC nations are the combinations of the developing nations and besides India most of the SAARC nations are low income countries and lesser contribution in the world trade. India has playing a significant role in promoting trade and economic corporation with SAARC nations in 2013-2014 the export of India with the SAARC nations is 1052.80 Rupees Billion and import is only 149.23 Rupees Billions.

### OBJECTIVE OF THE STUDY

The objectives of this paper are as follows:

1. To analysis the current performance of India's foreign Trade with SAARC nations.
2. To analysis the current account deficit of India.
3. To evaluate the impact of India's foreign Trade with SAARC nations on the Current Account Deficit of India.
4. To suggest proper guideline and policies for improving foreign trade among SAARC nations.

### RESEARCH DESIGN

The study will be fully based on secondary data which will be collected from Reserve Bank of India (RBI), Economic Survey, Ministry of Commerce, Ministry of Finance. The study will be made after analysis of the trade of India with SAARC nations and its impact on Indi's CAD.

**Table-1, Current Account Deficit of India (Rupees Billion)**

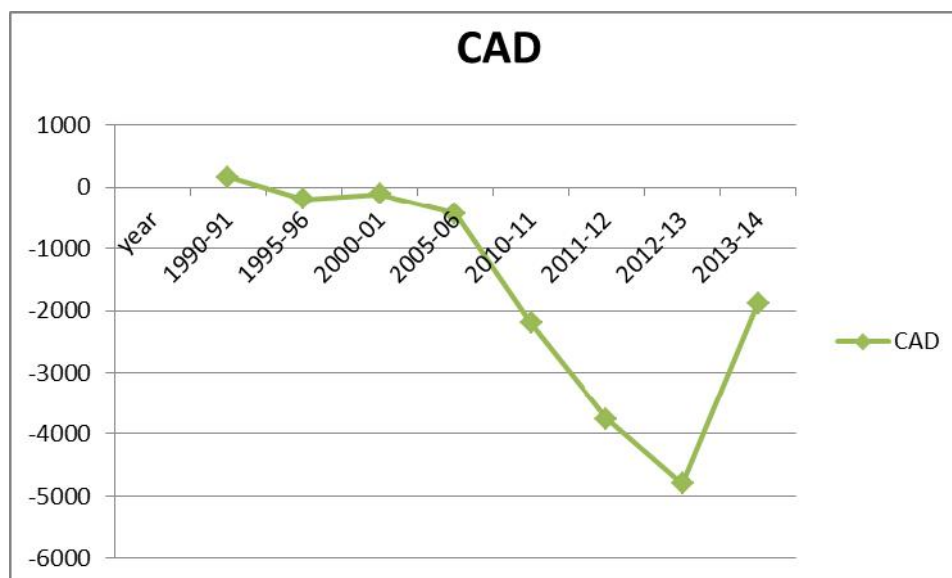
Year	CAD
1990-91	165
1995-96	-197.06
2000-01	-115.98
2005-06	-437.37
2010-11	-2196.53
2011-12	-3759.73
2012-13	-4796.14
2013-14	-1877.5

Source: RBI Handbook of Statistics 2013-2014.

As we seen in this table that in 1990-1991 current account is shoes the picture of positive and in India in 1991 the liberalization policy adopted than after open the boundary with tariff relaxation so the CAD started increasing and in 1995-96 it was -197.06 rupees billions

which and in 2012-13 it was recorded highest with -4796.14 rupees billion and in 2013-14 it dramatically decrease because in this period the government adopted a very tight policy for controlling such a huge CAD.

Chart 1



In this chart it is very clear that till the 2012-13 there was continuous increase recorded in the CAD but in 2013-2014 it reduces from 2918.64 rupees billion which is amazing and good for Indian economy it reduced the pressure from the government and shows that the planning of government and higher authority of the country are working good but problems prevail in the economy of the country.

### TRADE OF SAARC NATIONS

International trade has often been referred as the “engine of growth” that enhanced the development and growth of country. SAARC was formed in 1985 with the seven member countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka with the vision of welfare enhancement and opportunity to realise the full potential of the region. The idea of regional cooperation was initiated by Bangladesh during 1977-801 and later these seven member countries formed the regional bloc to accelerate social and economic development through the concept of collective self-reliance, cooperation and harmony in certain areas of development. The idea of regional cooperation was initiated by Bangladesh during 1977-801 and later these seven member countries formed the regional bloc to accelerate social and economic development through the concept of collective self-reliance, cooperation and harmony in certain areas of development. A few developing countries, especially in East-Asia, which undertook trade policy reforms had adopted and export oriented growth strategy specifically in line with regional integration (Association of South East Asian Nations, Asia Pacific Economic Co-operation) Succeeded in achieving rapid economic growth and industrial development (Wilson,

2002). To accelerate the process of socio-economic development in member countries is one of the major objectives of formation of SAARC forum. Thereafter, trade promotion was also pursued as an area of economic Co-operation. Asian Association for Regional Cooperation (SAARC) countries is assesses the foreign trade potential and trade creation with the members of the country. An important characteristic of the SAARC nations that they has abounded labour supply and has a comparative advantages in their production and international trade of many labour incentive manufactures

A study by Kemal and others (2001) observes that various structural and policy-induced factors – such as an almost identical pattern of comparative advantage, lack of trade complementarity among member countries, restrictive trade policies and political differences – appear to be the plausible factors that have inhibited the growth of intraregional trade in South Asia.

Rais Ahmad Khan, (1983). “Peace and Security in South Asia: The American Role”. Pakistan Journal of American Studies, 1(1&2) “The main motive of the association is the speeding up of process of economic and social development in member states, through shared aggression in unanimously consented areas of cooperation. World war II period saw the great upsurge of Asian Nationalism and crumbling of colonial empires. At the culmination of the World War II, a number of newly freed states emerged on the map of South Asia”.

The first policy regarding trade of SAARC nations was come in to force in 1995 i. e south Asian Preferential Trading Arrangement (SAPTA) for accelerating economic growth and development amongst SAARC nations.

The basic principles of SAPTA were:- (According to Secretary General of SAARC 1995)

- a) SAPTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade, trade and tariff policies and systems;
- b) SAPTA shall be negotiated step by step, improved and extended in successive stages with periodic reviews;
- c) The special needs of the Least Developed Contracting States shall be clearly recognised and concrete preferential measures in their favour should be agreed upon;
- d) SAPTA shall include all products, manufactures and commodities in their raw, semi-processed and processed forms.

The objective of this policy was to promote and sustain trade and economic corporation among the SAARC nations through the exchange concession with the agreements. But after some time this policy find ineffective for promoting trade relationships and economics development. Than for removing the problem and provide a good and smooth trade relationship amongst SAARC nations there are need to a new policy which come in to force in 2006 i.e South Asian Free Trade Area (SAFTA) with the following objectives and principles(According to Secretary General of SAARC 2006)

1. The Objectives of this Agreement are to promote and enhance mutual trade and economic cooperation among Contracting States by, inter-alia:

- a) Eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;
- b) promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development;
- c) Creating effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
- d) Establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.

2. SAFTA shall be governed in accordance with the following principles:

- a) SAFTA will be governed by the provisions of this Agreement and also by the rules, regulations, decisions, understandings and protocols to be agreed upon within its framework by the Contracting States;
- b) The Contracting States affirm their existing rights and obligations with respect to each other under Marrakesh Agreement Establishing the World Trade Organization and other Treaties/Agreements to which such Contracting States are signatories;
- c) SAFTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade and tariff policies and systems;
- d) SAFTA shall involve the free movement of goods, between countries through, inter alia, the elimination of tariffs, Para tariffs and non-tariff restrictions on the movement of goods, and any other equivalent measures;
- e) SAFTA shall entail adoption of trade facilitation and other measures, and the progressive harmonization of legislations by the Contracting States in the relevant areas; and
- f) The special needs of the Least Developed Contracting States shall be clearly recognized by adopting concrete preferential measures in their favour on a non-reciprocal basis.

This policy was the trade liberalisation programme and all the tariffs and duties amongst the countries was eliminated under this policy for the rapid growth amongst the SAARC nations. Most of the SAARC nations are low income developing countries and they are trying to fulfil their requirements with the active co operation of south Asian countries and this is very important policy for enhancing trade relationships because elimination of tariffs and duties decrease the cost of import of goods and services amongst the nations after the agreements the countries starts to eliminating their tariffs. The aim of SAFTA is expanding trade among members countries by reducing and eliminating tariff barriers and creating effective framework for regional cooperation and economic relationship among contracting nations.

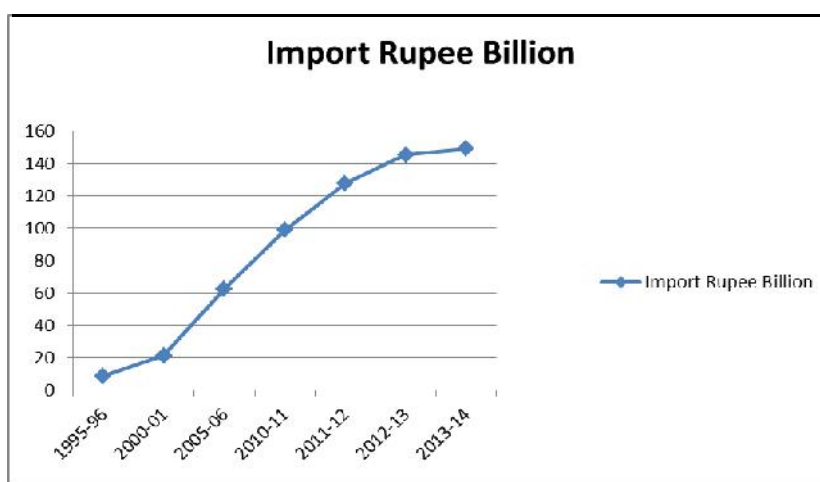
**Table-2, India's import from SAARC Nations**

year	Import (Rupees Billion)
1995-96	8.58
2000-01	21.28
2005-06	62.57
2010-11	98.88
2011-12	127.74
2012-13	145.46
2013-14	149.23

Source: RBI Handbook of Statistics 2013-2014.

Foreign trade consist import and export of goods and services we can see in this data that the trade relationship of India and 1995-1996 it was 8.58 Billion which is 149.23 billion in 2013-14 this shows that the trade relationship of India and SAARC nations continuously Increasing. After adopting SAFTA there are rapid growth recorded in the trade of SAARC nations and import of India also increases in this manner.

**Chart-2**



**Table-3, India's Export to SAARC Nations**

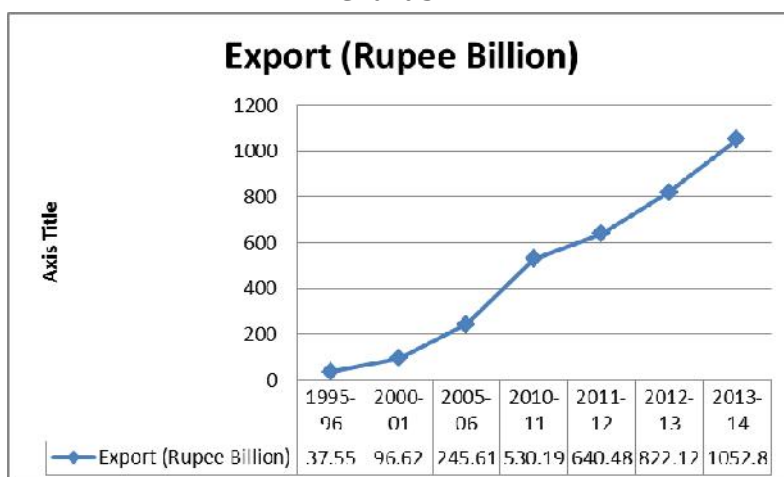
Year	Export (Rupee Billion)	% of total Export
1995-96	37.55	5.57
2000-01	96.62	5.03
2005-06	245.61	4.36
2010-11	530.19	4.63
2011-12	640.48	5.38
2012-13	822.12	4.74
2013-14	1052.80	5.41

Source: RBI Handbook of Statistics 2013-2014.

India is the largest trading partner amongst all the SAARC nations and the export of SAARC India is increasing countenously and it in 1995-96 it was 37.55 billion rupee which later increases 1052.80 billion rupee and the share in total trade is 5.41% It has been agreed in SAFTA t that for the South Asian countries, Pakistan and

India will eliminate all tariffs by 2012, Sri Lanka by 2013 and Bangladesh, Bhutan, Maldives and Nepal by 2015.after 2012 the export of goods and services increasing and the reason of that liberalisation and non tariff barriers for the partners country.

Chart-3

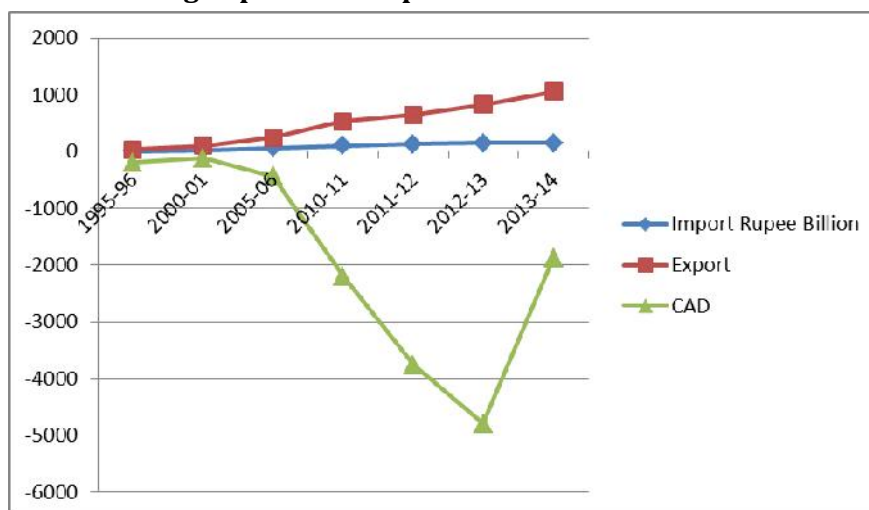


**CONCLUSIONS AND FINDING**

From this analysis we can say that CAD is the difference of import and export of goods and services in India due to a developing nations the import of goods is always higher than export of good and services the reason is being negative or a very slow growth rate of manufacturing sector of India and due to slow and negative growth rate India depend on the Import and the Item exported from India is mainly agriculture items. If we analyses India’s trade relationships with developed country we find that India’s trade with developed countries are unfavourable and the requirement of import of India

increasing day by day demographic characteristics of India also responsible for increasing CAD because the high population demand are high and if the domestic production are not able to fulfil it the only one option remain that is import and import increases the current account deficit of the country. In the case for SAARC nations the India’s trade relationship are favourable and India’s export of goods and services is higher than import. SAFTA is a key of improving the trade relationship of partner country and provide a very easy trade between partners countries with eliminating all the tariff barriers.

**Chart-4-Chart showing Export and import of India with SAARC and India’s CAD**



We can see in this chart that the export of India to SAARC nations is much Higher than import and it is a very positive impact on India’s CAD because where as India trade with other developed country is very strong but if we analysis than find that India is Importing in Very High amount of goods and services from developed nation which is become the cause of CAD.CAD is affected by negative movements of the exchange rate and negative

Foreign Investments. The RBI is now following a more market determined exchange rate. A high and uncontrollable CAD may scare foreign investors which in turn would weaken the rupee, which then would cause a further strain on the CAD. This effect is a chain-effect. Hence in this study we analyse the cause and effects of the CAD, and the Indian Rupee (INR)-to-US Dollar (USD) exchange rate, and their interdependence and in case of





SAARC nations India is strong in Export which minimise CAD. So trade with SAARC nations work as a tonic for the India's current account balance and India should have try to expand their trade relationship with SAARC nations and increase the share of export of SAARC nations in total export of India because due to a developing nations India will have depend on developed countries for their requirements till development and some product like oil demand is also very high in India which India never be fulfil without import of oil. So if India trade relationship expanded with SAARC nations it can eliminate some amount of India's CAD.

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