



Roundtable Financial Integration in South Asia: *Challenges & Prospects*

April 21, 2013 Kathmandu-Nepal

Introduction:

Financial sector is one of the most important areas of cooperation among SAARC nations which has multiplier effect on cross border trade and investment and eventually can usher South Asia towards a destination of Economic Union.

The First Meeting of SAARC Finance Ministers held in July 2006 in Pakistan approved the establishment of an Inter-Governmental Expert Group (IGEG) on Financial Issues with a mandate to develop its draft Terms of Reference based on the areas outlined by the SAARC Leaders at their Thirteenth Summit, including development of the roadmap for achieving the South Asian Economic Union (SAEU) in a gradual and phased manner. Since then six rounds of IGEG have been held including the recent meet held at the SAARC Secretariat on 23-24 April 2013.

The 6th Inter-Governmental Expert Group discussed matters relating to Public Debt Management; Development of Capital Market in South Asia; Financial Inclusion - Access to financial services and

credit to financially excluded sections of the society; Experiences of Financing for Infrastructural Development; Combating Money Laundering and Terrorist Financing; Harmonisation of fiscal and trade indicators; comparative performance of key economic indicators; sharing of experience and best practices in the financial sector; greater flow of financial capital and intra-regional long-term investment.

The Meeting also reviewed the progress in the implementation of Swap Arrangement. The Swap facility will further deepen economic cooperation within the SAARC region, pave the way for increased intra-regional trade and contribute to enhancing the collective welfare of the region.

The report of the IGEG will be considered by the Sixth Meeting of SAARC Finance Secretaries scheduled to be held in Colombo, Sri Lanka on 29 August 2013 preceding the Sixth Meeting of SAARC Finance Ministers on 30 August 2013.

Roundtable Discussion

In the pretext of this development, the SAARC Chamber of Commerce and Industry (SAARC CCI) organized a Roundtable Discussion in collaboration with the Federation of Nepalese Chambers of Commerce & Industry (FNCCI) and in partnership with Friedrich-Naumann-Stiftung für die Freiheit, Regional Directorate New Delhi on April 21, 2013.

The roundtable convened under the theme “Financial Cooperation in South Asia: Recent Development and Challenges” was chaired by Mr. Vikramjit Singh Sahney, President SAARC CCI and was addressed by renowned academicians, practitioners and experts including Professor Abdul Wasay Haqiqi, Lecturer and Advisor, American University-Kabul, Dr. Ahsan H. Mansur, Executive Director, Policy Research Institute-Bangladesh, Mr. Joseph Silvanus, CEO, Standard Chartered Bank Limited-Nepal, Mr. Kishore Maharjan, CEO, Civil Bank Limited-Nepal, Mr. Muhammad Abdul Wahab Siddiqui, Economist, Sustainable Development Policy Institute (SDPI)-Pakistan, Engr. M. A. Jabbar, Practitioner Economist, Pakistan and Mr. Pradeep Kumar Shrestha, Vice President, SAARC CCI from Nepal.

Observations and findings of the Expert Panel

The academicians and experts made presentations on the subject matter and invited comments from the response panelists and the participants predominantly represented by Private Sector from South Asian countries.

- The experts regarded synchronized regional financial system as an integral part of the Regional Economic Cooperation.
- The determinants of Financial system like Public Debt Management; Development of Capital Market ; Financial Inclusion - Access to financial services and credit to financially excluded sections of the society; Infrastructural Development; harmonisation of fiscal and trade indicators; comparative performance were discussed in regional context.
- The academicians observed that the progress of regional economic integration of South Asia was quite slow particularly in respect of financial mechanism, which they regarded as an instrumental to increase cross-border Trade & investment opportunities among SAARC member countries.
- They were of the opinion that a balanced financial system among SAARC member states will help

allocate resources efficiently, leading towards poverty reduction and job creations.

- They also emphasized for the need of introducing Regional Finance Cooperation (RFC) in line with RFC conceived by East Asia (EA) economies post 1997 Asian financial crisis in East Asia.
- The roundtable argued that such mechanism could help in strengthening SAARC member states performance by avoiding over dependence on IMF, World Bank and ADB and urged on SAARC member states to learn from East Asia (EA) crisis that prompted East Asian economies to realize the potential benefits of installing cooperative mechanisms.

Challenges and Issues

The Roundtable highlighted some challenges and issues faced by South Asian countries both at bilateral and regional level. The experts were of the opinion that in addition to economic and financial challenges like absence of regional investment treaty, economic disparities, bilateral commitments, hindering regional negotiations, asymmetrical fiscal and monetary policies, the South Asia region as a whole was hostage to an environment of mistrust due to historical and political conflicts, which had led to lack of political will, resulting into bureaucratic hurdles and other restrictive measures, hindering process of regional integration. The other challenges included low level of intra-SAARC trade and investment, less priority to economic issues by respective Governments, bilateral agreements operating as parallel mechanism instead of reinforcing regional mechanism, para-tariff and Non-Tariff Barriers and above all security and sovereignty of business related issues.

Some suggested measure to address the issues

Some of the suggested measures worked out from the deliberations of the roundtable are hereunder:

- a- **Cooperation amongst groups of Government and Central Bank :** Consolidating and bringing consistency in reports and findings that could come from diversity of studies conducted by various groups of government and central bank level.

- b- Establishing surveillance and monitoring frameworks:** Establishing surveillance and monitoring frameworks on broader perspective i.e. beyond simple review of economic conditions or indicators of countries, to dilute pick up choice of IMF as the rescue. Important to ensure more rapid information exchanges and decision making.
- c- Seek cooperation with major international financial organizations:** Cooperation with major international financial organizations for capacity-building of institutions and to adopt suitable mechanisms to enable regional financial cooperation to proceed smoothly.
- d- Experiences of IMF and ADB:** Garnering support from the experiences of IMF and ADB may help in successful setting up of regional financial organization.
- e- Political stability:** Instability of political systems in the member countries become strong hindrances in forming a strong RFC. Therefore, political stability is important to share a common vision.
- f- Financial Cooperation:** Consider to improve working of Asian Clearing Union by improving SAFTA deliverables for sustainable development, removing barriers to Trade and Investment and collective effort to fight financial terrorism

g Monetary Cooperation:

- i)- Macro-economic cooperation in information exchange & surveillance system, resource coordination and pooling, exchange rate coordination etc;
- ii) Strengthening collaboration amongst SAARC desks / units in Central banks of member countries to address Macro-prudential approaches towards regulation, harmonisation and simplification.
- iii) The concept of PPP by appropriately integrating Private sector in the process of policy making should be considered as inevitable towards decision-making in the interest of Private Sector, for which decisions are made to facilitate sustainable development.

Roadmap for Regional Financial Cooperation Framework:

The Experts & Academicians suggested a policy frame work for regional financial cooperation, which is as follow

a) - Strengthening crisis management regimes

- Creating co-operative schemes for resolving and preventing any future crisis.
- Establishing regional financing arrangements: Setting up Bilateral Swap Arrangements (BSA) by Central Banks of member countries in order to address liquidity demand. (ASEAN+3 Model)
- Strengthening surveillance and monitoring framework.

b) - Developing regional bond market

- Primary aim is to lessen dependency on funding from outside the region and cultivation of funding from within the region.
- Diversifying the investment targets of members' foreign exchange reserves.
- Helps in building a common sub-structure of credit guarantee, credit rating and settlement system.
- Bond Market can play significant role in developing under achieved economic needs in member countries through financial infusions particularly in the areas of infrastructure including power sector development, other sectors like education, health, tourism, IT as envisaged under SAFTA trade & services agreements and other specific sectors to the needs and demands of each member country.

- All these sectors offer vast investment opportunities with long term consistent returns. Immense opportunity for all members.

c- Studies on regional foreign exchange cooperation and regional monetary integration

- Basic Goal: Building an emergency funding system in preparation for possible future financial crisis; cooperate in foreign exchange related issues, currency swapping that together would help in preventing competitive devaluations of currencies in times of foreign exchange crisis.

Consider development of Asian Currency Unit (ACU) in line with comparable practices in other regional blocs.



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Political Economy of Regional Integration

Gradual transformation Process for regional integration

Degree of Economic Integration	Integrated Areas
Preferential Trading Area (PTA)	partial abolishment of custom tariffs
Free Trade Area (FTA)	full abolishment of custom tariffs
Custom Union	A unified tariffs on the exterior borders
Common Market	Inclusion of the movement of services, capital and labor into to an FTA
Economic Union	A combination of the customs union with a common market
Fiscal Union	Introducing a shared fiscal and budgetary policy
Monetary Union	Introducing a shared currency
Complete Economic Integration	Unification of economic policies (tax, social welfare benefits, etc.), reductions in the rest of the trade barriers, introduction of supranational bodies, and gradual moves towards the final stage, a "political union"

South Asian Journey towards Economic Liberalization

- Signing of SAPTA : 1993
- Signing of SAFTA (operational) : 2006
- Inclusion of services in SAFTA : 2010
- Services under SAFTA : Education, Health, Finance, ICT, Tourism
- Services under WTO : 12 Major Sectors
- Intra-regional Trade : \$18 billion (4.8%)
- Trade under SAFTA : \$ 2.4billion (2012)