Needed, a Saarc financial market platform

This will create a regional financial hub and is a win-win for governments, investors and intermediaries

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The South Asian Association for Regional Co-operation was set up in 1985 with the belief that cooperative action among the member countries would usher in an era of shared prosperity.

Thirty years down the road, it is now widely accepted that Saarc has failed to achieve the objectives for which it was set up as a result of which the organisation does not carry much heft at the international level. This, however, is expected to change with the current government's focus on its immediate neighbourhood, most importantly Saarc. It is believed that India will lead the charge to change the organisation's hitherto insipid performance.

Economic integration between member countries is a prerequisite for a strong and vibrant Saarc. Not much headway has been made in intra-regional trade despite the South Asian Free Trade Agreement (Safta) and South Asian Preferential Trade Agreement (Sapta). Intra-regional trade hovers around 4-6 per cent. It is in this context that the 'Integrated Financial Market Platform for Saarc Countries' is important.

This needs initiatives on several fronts, the first and foremost being the creation of an integrated financial market platform. This initiative has to be taken up at the government level. As the name suggests, the Integrated Financial Market Platform would be an exchange where companies of the member countries would list their shares. The platform would provide companies an option to reach out to a much larger number of potential investors and provide them with a more diversified stock owning option.

Facilitating flow

India has the most sophisticated financial market in the Saarc region with world class regulation and effective compliance. The markets of other member countries are plagued by a multitude of problems, lack of liquidity being one of them. An integrated platform would enable investors to invest in their own domestic companies with less risk as the shares would be more liquid and the listed companies better regulated.

This set-up would have its own independent trading, clearing and settlement platforms, professional management and risk management practices. It would facilitate easier intra-regional flow of capital.

India manages to attract significant foreign portfolio investments, but the accruing to India from the proposed platform would not be any less compared to other member countries. Therefore the initiative has to be looked at through a politico-strategic prism too. The platform would necessitate a settlement mechanism which might lead to the emergence of the Indian rupee as a preferred mode of transaction in the Saarc region.

Other Saarc countries not only have a small financial market, they are poorly regulated as well.

Harmonisation of regulatory standards and uniformity in enforcement of rules and regulations would benefit these countries greatly. The purpose of the platform would be to make the capital market of member countries more efficient and serve their development needs more effectively.

Combined clearing, settlement and risk management corporations can be promoted, with equity participation by member countries. Here the role of the regulator and self-regulatory organisation (SRO) of the respective countries is very important, including the central banks. They can also form part of the equity ownership of these corporations.

A federation of market intermediaries association, that is, the South Asian Securities Association (SASA) needs to be created. SASA would be a federation of brokers' associations in the member countries. It would formalise and institutionalise a process of interaction among members to share best practices and try to achieve harmonisation of rules and regulations pertaining to their sector. The sector regulators would meanwhile enter into an agreement with one another to recognise a market participant registered in any member country to be eligible to participate in any other member country in this integrated trading platform.

Special economic zone

To give further fillip to the concept, a special economic zone can be set up in India, developed on the lines of Global Financial Hub, housing offices and all intermediaries such as brokers, banks, exchanges, regulators, corporations and technological infrastructure for connectivity, technology, software and hardware vendors, and so on.

This will lead to several beneficial outcomes, including harmonisation of regulatory standards, rules and regulations, a free flow of capital and investment among member countries and doing away with compulsory registration/licensing of financial market participant in order to operate in a member country.

It will also lead to an increase in financial intermediation, increase in the saving ratio, development of niche financial markets, lower cost of borrowing for companies and governments, and will provide investors with wider investment options both in terms of number of products and risk-return profile. Other benefits include increased financial literacy, specialised financial product development and sharing of knowledge and expertise.

Challenges include overcoming the fear of capital flight from smaller countries to better regulated and better managed financial markets, and opposition to an integrated platform from vested interest profiteering from the current fragmented and inefficient market. Managing currency settlements will also need to be suitably worked out.

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