CROSS-BORDER COOPERATION OF FINANCIAL MARKETS- MODELS & BENEFITS

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Cross-border cooperation brings together the communities on both sides of the border. It helps to transform the border into a possibility for development.

Cross-border cooperation should take place; and more importantly, which specific structures, policy fields and activities and resource bases are optimal for successful cross-border cooperation.
Cooperation across borders- divided into following three separate development phases.

- In the first phase, the Member State regions involved offer expertise and training, organize study visits to the Member State, and conduct feasibility and other studies on the development potential of the border area.

- In the second phase, plans are drawn up with a view to social and economic convergence between the border regions.

- In the third phase, the regions genuinely jointly recognize the potential for regional development provided by the border.
ISSUES FOR DELIBERATION

- NEED FOR FINANCIAL MARKET INTEGRATION
- BENEFITS OF CROSS-BORDER CO-OPERATION
- RISKS ASSOCIATED WITH FINANCIAL MARKET INTEGRATION
- MITIGATION OF RISKS
FINANCIAL MARKET INTEGRATION

FINANCIAL MARKET ARE DEEMED TO BE INTEGRATED IF:

- PERFECT CAPITAL MOBILITY
- NO RELATION BETWEEN DOMESTIC SAVING AND DOMESTIC INVESTMENT
PERFECT CAPITAL MOBILITY

CAPITAL SHOULD MOVE FREELY ACROSS THE BOUNDARIES

WITH MINIMAL FRICTION (TRANSACTION COSTS)
NO RELATION BETWEEN DOMESTIC SAVING AND DOMESTIC INVESTMENT

SUSTAINED INCREASE IN SAVING IN ANY ONE COUNTRY SHOULD ADD FUNDS TO THE WORLD CAPITAL MARKET

SAVING Responds TO THE REGIONAL OPPORTUNITIES FOR INVESTMENT

INVESTMENT IS FINANCED BY THE REGIONAL POOL OF CAPITAL
INTER-LINKAGES OCCUR AMONG DOMESTIC FINANCIAL MARKET SEGMENTS

HORIZONTAL INTEGRATION

BETWEEN DOMESTIC MARKETS AND INTERNATIONAL/REGIONAL FINANCIAL MARKETS

REMOTES OBSTACLES TO MOVEMENT OF PEOPLE, TECHNOLOGY AND MARKET PARTICIPANTS ACROSS BORDER.

DIMENSIONS OF FINANCIAL MARKET INTEGRATION

VERTICAL INTEGRATION
WHY INTEGRATE CAPITAL MARKETS?

INCREASED ECONOMIC GROWTH

REAL EXCHANGE RATE APPRECIATION

IMPROVED CREDIT RATINGS

SIGNIFICANTLY LARGER AND MORE LIQUID EQUITY MARKET

LOWER COST OF CAPITAL

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Financial Integration

Benefits of Cross-Border Capital Flows

- Positive impact of capital flows on domestic investment
- Enhanced macroeconomic discipline
- Economic cooperation leads to political cooperation among nations
- Increased degree of financial intermediation process by lowering costs
- Efficiency as well as greater stability of the domestic financial system
Non-harmonisation of legal and regulatory systems

Absence of well-developed and deep forex markets

Economic barriers and asymmetric information

Exchange Control Regime
Major risk is that of contagion

Influencing free market behaviour

High degree of concentration and misallocation of capital flows

Volatility of capital flows
MINIMIZING RISKS

• Strong framework for prudential regulation and supervision necessary to ensure that risks arising from integration are being assessed and managed well

• Move towards risk-based supervision.

• Policies towards the financial sector be accompanied by the right incentives for sound corporate governance.
CROSS-BORDER COOPERATION: POST 2008

• Cross-Border cooperation gone into reverse gear post 2008;

• Unfettered globalization replaced by conditional and nationalist model so as to save domestic industries; and

• Innovative restrictive policies have been introduced by various countries.
Financial integration can have important contribution in reforming the international financial system. However, regulatory efforts must strike an appropriate balance between local aspirations & needs and international financial practices.
THANK YOU