Regional Economy and Capital Market[1]

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As a firm believer in South Asia Regional Economic Cooporation for past 25 years, I think it is time for the policymakers to examine coolly and dispassionately the newly emerging but highly compelling reasons for burying the past and move in a new direction.

First the global geopolitical situation is moving away from integration liberalization and openness towards fragmentation, protectionism and inward orientation. The biggest champion of trade liberlisation and financial market integration is now retreating into the opposite direction. Therefore, the winds of change that propelled the developing countries to make significant gains in terms of poverty reduction, increase share in global GDP and world trade, in-flows of international capital, migration of workers and remittances and transfer of technology have slowed down.

US, China and Europe are all engaged in near shoring, insourcing and friendly shoring to protect their national interests to gain sustainable supply chains and national security against unfriendly and deliberate gestures of abrupt and sudden external shocks caused by disruption in supply chain. On the basis of this trend, it is imperative that the developing countries have to enter into bilateral and regional trade agreements. South Asia which is least integrated region has the highest potential as it was functioning as an integrated economic union until 1947.

Common history, administrative systems, legal structure, well connected rail road, ports infrastructure make it easy to accelerate the process of regional integration if there is a political will. All empirical studies have

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demonstrated that this would be a win-win situation for all the countries in the region.

Second, the risks of climate change have already become heightened making us aware that our economic future is interconnected. As we are dependent on water flows from the glaciers as well as a rainfall precipitation, global warming is creating erratic events such as floods, torrential rains, droughts, heat waves and rising sea level. The rivers in South Asia have a common origin and their distribution between the upper and lower reparians has to be assiduously and equitably resolved so that all countries benefit from such an arrangement. It is most unfortunate that the Indus Water Treaty that has withstood so many wars conflicts, skirmishes for last 65 years has fallen prey to the May 2025 skirmish between India and Pakistan. As more sober and far reaching a response would have been to extend the scope of the treaty and include China and Bangladesh in management and distribution of water resources to mitigate the risks of climate change.

This step taken by India has taken us in the opposite direction with great anxiety among the lower riparian about a likely humanitarian crisis affecting 240 million people.

Third, in today's world, competitiveness is defined by technology, connectivity, and data-driven decision-making. Technological advances in forms of AI, Robotics, Cloud computing, Black Chains, **sensors,** satellites provide an excellent opportunity for improving our Industry, agriculture, education, Health, Exchange of Students, researches, joint projects, industry-academic collaboration among the South Asian Countries can reduce the timing in the application of successful technologies to countries which do not have the capacity or expertise to absorb, assimilate or apply the knowledge by themselves. Learning from the successes and failures of each experiment conducted in larger countries that have the appetite to take risks and wherewithal to mitigate would help the less advanced countries of South Asia and their sub-regions in boosting their productivity and competitiveness.

Technological penetration takes place swiftly with the economies of scale and economies of scope. A unified seamless market of 2 billion people offers an alternative opportunity. Sub regional coooperation such as Bangladesh-West Bengal-Assam, Pakistan's Punjab-Indian Punjab-Haryana; Sindh-Rajasthan; Sri Lanka-Tamil Nadu would benefit because of contiguity, almost identical ecosystems, lower transport costs, complementarity in production, industrial clusters

Finally I come to capital markets.

Capital markets are not merely a source of financing — they are the heartbeat of economic growth. A deep, liquid, and transparent market channels savings into productive investments. When investors and issuers trust the system, capital markets become engines of entrepreneurship, infrastructure, and job creation. Strong markets also reduce dependence on banks and public debt, spreading financial power more evenly across society. Reforms cannot succeed in isolation. Capital market reform must go hand in hand with fiscal, monetary, and structural reforms. For markets to thrive, there must be macroeconomic stability, sound monetary policy, and predictable regulation. A fragmented approach — fixing one part of the economy while neglecting others — leads to distortion and inefficiency. Coordination among regulators, ministries, and market institutions is therefore essential to sustain confidence and long-term growth.

India, of course, is too big a player and quite successful in efficient mobilization of resources through both the debt and equity capital markets. Other countries should also follow their example. Bangladesh has done reasonably well with its equity market with large number of active retail investors. Its debt market is largely bank-centric and leaning towards private placement Pakistan has recently witnessed a buoyancy in the secondary markets in equities but its primary market issuance is scanty. Fiscal dominance has diverted most of bank lending to Finance budget deficits and state on Enterprises. Therefore that market on exchange is not functioning well.

Market infrastructure must be on par with international standards — ensuring speed, transparency, and risk management across the full trade lifecycle. Digitization and integration across exchanges, clearing houses, depositories, and brokers can dramatically enhance efficiency and investor confidence. The regulator's role as an enabler and facilitator becomes critical here — balancing innovation with integrity.

Technological improvements have helped PSX in transparency, clearing, settlement, custody and trading compound to the previous systems. These improvements should enhance the trust of retail investors because many of them felt the stock market acted as a casino and dominated by a few large brokerage houses. Professional brokerage firms have stepped in but digitalization should make it easy for expanding the retail investor base. South Asian countries excluding India have to review if restrictions on foreign participants, Investor protection, regulatory and uncertainty are impeding the progress or not.

The recent tripartite MoU between Bangladesh, Pakistan and Sri Lanka if implemented faithfully can strengthen collaboration in technology, regulation, product development In the end I would like to thank Info-tech which have established a track record in providing solutions for capital markets developments in many developing countries.

Closing Thought

“Capital markets, when properly regulated and technologically equipped, become a mirror of a nation’s economic maturity.Reforms, inclusivity, and modernization are not ends in themselves — they are instruments for building trust, opportunity, and shared prosperity.”