



## Time for Financial Cooperation in BIMSTEC: Scope and Future Roadmap

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### Background

Over the years, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) has strengthened its pillars and mechanisms of cooperation including adoption of the Charter and consolidation of priority sectors into seven areas at the Fifth BIMSTEC Summit held in Colombo in March 2022. Besides consolidation, BIMSTEC has broadened its agenda of cooperation by identifying three more fields as sub-sectors including blue economy, mountain economy and poverty alleviation at the 19th Ministerial Meeting held on 9 March 2023. While the seven pillars of cooperation have dedicated mechanisms for official deliberations and broadly guide the scope of BIMSTEC cooperation,

there are certain cross-cutting areas that are critical to regional cooperation even though those are not explicitly mentioned under any of the seven pillars.

Financial cooperation is one such critical component of cooperation among the BIMSTEC member states. There is no such thumb rule *per se* for sequencing of regional Cooperation. In practice, it typically starts with trade integration followed by investment, services and then financial cooperation. The European Union (EU) is a best example as it took several decades for the common currency, Euro to take shape. Financial cooperation can also be pursued simultaneously with trade and economic integration. For example, the process of financial cooperation in terms of swap arrangements,

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exchange rate coordination and foreign exchange reserve management in ASEAN gathered momentum after the East Asian Financial Crisis in 1997 along with deepening of trade integration.

Financial shocks spread rapidly across borders and cannot be effectively managed by the affected countries alone. Deep financial integration amplifies both opportunities and risks, making collective responses indispensable. As Claessens et al. (2010) observe, financially integrated markets can generate high real economic costs when crises occur, which highlights the importance of coordinated policy action. The unprecedented international cooperation during the global financial crisis 2008-2009 including central bank swap lines, coordinated fiscal stimulus and expanded IMF support reflected the recognition that no economy is insulated from global shocks. Similarly, the G20 and BRICS stressed on managing cross-border spillovers and strengthening global safety nets (Bayoumi, 2014).

Reliance on international financial institutions for crisis financing in the past has revealed important limitations. During the East Asian financial crisis in 1997, IMF support was delayed or excessively conditional. In Thailand and Indonesia, initial IMF-mandated fiscal tightening and high interest rates deepened economic contractions before policies were eventually adjusted to support recovery (Katz, 1999). These experiences strengthened the need for region-specific mechanisms that can respond more quickly and flexibly to local conditions. Consequently, new

initiatives emerged to strengthen policy communication, coordination, and cooperation in financial, monetary, and fiscal domains. These efforts focused on macroeconomic risk management, monitoring capital flows, strengthening banking systems, improving corporate governance, reforming the global financial architecture, and enhancing regional self-help and support mechanisms (Kawai, 2015). Recurrence of financial crises regardless of its epicentre and the humanitarian crises of the COVID-19 proportions warns that financial instability is a shared challenge in an interconnected world. Effective regional and global financial cooperation is, therefore, central to managing negative externalities, ensuring timely liquidity support, strengthening crisis-response frameworks, and promoting stable, resilient, and inclusive economic growth.

Regional financial cooperation involves several short- and medium-term measures and policy tools. In essence, it covers provisions for addressing balance of payment problems and external shocks through currency swap arrangements, monitoring and coordination for orderly movement of exchange rates, regular sharing of information on financial markets, cooperation in macro-prudential supervision, among others. In crisis times, the short-term measures in the form of mobilising rescue finance from IMF and other multilateral institutions assume primacy. A properly designed scheme of regional cooperation improves joint preparedness and calibrated responses to systemic crises that very often becomes quite

challenging for any single country to deal alone. In addition, the success of financial cooperation is contingent upon effective governance structures, trustworthiness, and political commitment by the countries party to those arrangements (COMCEC, 2023).

Against this backdrop, financial cooperation appears to be emerging as an important priority for the BIMSTEC member states to support regional economic integration and enhance resilience against external financial shocks. Drawing on international experiences and recent developments within the region, this policy brief examines the current state of financial integration and presents the roadmap for strengthening financial cooperation in the BIMSTEC region. Specifically, it recommends strengthening regional financial safety nets, establishing an institutional framework for financial cooperation, promoting local currency settlement and currency swap arrangements, and expanding cross-border digital payment connectivity through a phased and pragmatic approach.

## **Lessons from Major Financial Crises**

Although financial globalisation in the 1990s and 2000s has enhanced access to international capital markets, facilitated cross-border FDI flows and enabled financial market integration, it has also increased the vulnerability of countries especially developing economies as transmission of external shocks can be abrupt and faster. Increased cross-border capital flows, integrated banking sectors, and globally linked supply chains have increased the transmission of financial shocks across borders (Wang & Andersen,

2003). Consequently, financial crises no longer remain confined within national borders rather it erodes financial stability, many a times in herd fashion. This paradoxical nature of globalisation underscores a fundamental policy dilemma: whereas globalisation of finances increases capital mobility fuelling economic growth, the build-up of risks emanating from exposure to global financial system is very high. From this perspective, financial cooperation at the regional and global level is critical to ensuring financial stability and improving crisis resilience.

The major financial crises in the last three decades particularly the East Asian Financial Crisis (1997), the Global Financial Crisis (2008), and the impact of global crisis with financial consequences like the COVID-19 shock (2020) collectively underscore the systemic fragility associated with deepening of global financial integration. Each episode of crisis revealed how rapidly shocks can cross borders and overwhelm national buffers (Claessens et al., 2010), expose the limits of unilateral crisis management of economies even with strong economic fundamentals (Wang & Andersen, 2003), and highlight persistent gaps in the global financial architecture (Eichengreen, 2020). They also demonstrated that durable crisis resilience requires coordinated regional surveillance, liquidity support mechanisms, and collective response frameworks. Table 1 summarises the key dimensions of different crises and the corresponding policy lessons.

Collectively, these episodes underscore a consistent and sobering lesson: no country in isolation, regardless of the strength of its fundamentals, is insulated from

**Table 1: Key Lessons from Major Financial Crises and Global Shocks**

| Crisis Episode                                                                           | Primary Trigger                                        | Main Transmission Mechanism                                                      | Core Policy Lesson                                                                                                                        |
|------------------------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| <b>East Asian Financial Crisis (1997)</b>                                                | Sudden reversal of capital flows                       | Currency contagion and integrated banking sectors                                | Premature financial liberalization without robust regulation amplifies vulnerability; regional liquidity support mechanisms are essential |
| <b>Global Financial Crisis (2008)</b>                                                    | US subprime mortgage collapse; Lehman Brothers failure | Multi-channel contagion through financial markets, credit, and solvency concerns | Nationally fragmented safety nets are insufficient; coordinated macroprudential policy and multilateral safety nets are indispensable     |
| <b>COVID-19 Pandemic (2020) (non-financial shock with severe financial consequences)</b> | Global health shock triggering sudden capital outflows | Over-reliance on US dollar liquidity; gaps in IMF instruments and SDR access     | Global mechanisms alone cannot ensure equitable crisis support; regional financial arrangements must complement global institutions       |

**Note.** The COVID-19 pandemic is classified here as an exogenous health shock with significant financial spillovers, distinct in origin from the endogenous financial crises above. All three episodes nevertheless share a common lesson: the insufficiency of purely national or global responses and the critical importance of regional financial cooperation mechanisms.

**Source:** Compiled by the authors based on Wang & Andersen (2003); Kim & Yang (2008); Hayati (2010); Jahan & McDonald (2012); Claessens et al. (2010); Eichengreen (2020).

the destabilizing effects of global financial shocks. Similarly, single institutions even well-resourced ones cannot provide timely, adequate, and equitable crisis support to all affected economies. The recurrence of crises with increasingly complex transmission mechanisms points to a structural gap in the global financial architecture that neither purely national responses nor global institutions such as the IMF have been able to address the crises effectively. These concerns have also been repeatedly highlighted by the BRICS leaders, who have called for reforms to make the international financial system more inclusive and responsive during global crises.<sup>1</sup> This

gap is particularly consequential for economically integrated but financially vulnerable regions like BIMSTEC, where shallow financial systems, limited reserve buffers, and underdeveloped capital markets heighten exposure to external shocks. The following section examines why these structural vulnerabilities make regional financial cooperation not merely desirable but critical for BIMSTEC member states.

## Current State of Financial Integration in BIMSTEC

BIMSTEC member states have registered steady growth and experienced robust economic performance in the

<sup>1</sup> The reforms in the global financial architecture are the overarching theme of the BRICS Summits. The primary source has been the annual BRICS leaders' declarations.

last decade. The region has consistently contributed to around 4 per cent of global GDP for over a decade, while accounting for nearly 22 per cent<sup>2</sup> of the world's population. Growth in BIMSTEC member states has broadly converged with the global trends (Figure A1). As global financial conditions have tightened significantly, driven not only by financial market disruptions but also by real-sector shocks arising from geopolitical tensions, supply-chain disruptions, climate events, and heightened uncertainty,<sup>3</sup> the need for BIMSTEC for pre-emptive action for financial sector resilience is not desirable, but critical (Figure A2). Structural vulnerabilities, underdeveloped financial systems due to nascent capital markets,<sup>4</sup> and recent balance of payments difficulties<sup>5</sup> in the member states necessitate BIMSTEC-wide arrangement for regional financial cooperation. Most BIMSTEC member states face high external fragility marked by fragmented and uneven FDI flows, large short-term debt, low foreign exchange reserves, and persistent current account pressures.

These vulnerabilities often get exacerbated by shallow and bank-

dominated financial systems across the region. Further, capital markets remain underdeveloped with limited corporate bond and equity financing, weak institutional investor participation, and heavy reliance on commercial banks for credit.<sup>6</sup> This structure constrains long-term investment, concentrates risks within banking systems, and prevents domestic savings from being efficiently mobilised for growth. Intra-BIMSTEC FDI increased from US\$ 5.9 billion in 2020 to US\$ 8.1 billion in 2023, recording a compound annual growth rate (CAGR) of approximately 11 per cent during 2020–23. However, despite this growth, intra-BIMSTEC financial integration remains fragmented and uneven across member countries (Table 2). Foreign direct investment within the region follows a hub-and-spoke structure centred on India, while portfolio investment is even more concentrated, dominated largely by Thailand–India financial linkages (Table 3). Most of the BIMSTEC countries do not have well-organised financial markets that can make long-term investments, such as FDI and short-term financial flows, such as FPI

<sup>2</sup> The data reported for 2024 are based on estimates from the World Bank's World Development Indicators (WDI) database.

<sup>3</sup> Please refer to Global Economic Prospects (GEP, 2025), World Bank for more details

<sup>4</sup> See BIMSTEC & ADB (2023).

<sup>5</sup> Sri-Lanka faced a severe BoP and debt crisis in 2022.

<sup>6</sup> See BIMSTEC & ADB (2023).

**Table 2: Intra-Regional Inward FDI in BIMSTEC  
(US\$ Million) (2023)**

| Country    | Bangladesh | Bhutan | India   | Sri Lanka | Myanmar | Nepal | Thailand | BIMSTEC |
|------------|------------|--------|---------|-----------|---------|-------|----------|---------|
| Bangladesh | -          | 0      | 773.68  | 402.57    | 0.09    | 6.04  | 270.85   | 1453.23 |
| Bhutan     | -          | -      | 39.1    | -         | -       | -     | 12.49    | 51.59   |
| India      | 1.18       | 0      | -       | 112.16    | 1.44    | 9.96  | 1700.86  | 1825.6  |
| Sri Lanka  | 10.87      | -      | 2257.56 | -         | 0.21    | -     | 20.9     | 2289.54 |
| Myanmar    | -          | -      | -       | -         | -       | -     | -        | 0       |
| Nepal      | 33.88      | 0.35   | 778.95  | 11.07     |         |       | -        | 824.25  |
| Thailand   | 25.05      | 0.93   | 1558.88 | 32.34     | 82.99   | 8.96  | -        | 1709.15 |
| BIMSTEC    | 70.98      | 1.28   | 5408.17 | 558.14    | 84.73   | 24.96 | 2005.1   | 8153.36 |

Source: IMF, CDIS Database

Note: Data for Bilateral FDI data with Myanmar is not available & “-” indicates data not available

**Table 3: Intra-Regional Portfolio Investment in BIMSTEC**  
(Total Investment Positions, US\$ Billion, 2024)

| Country    | Bangladesh | Bhutan | India | Myanmar | Nepal | Sri Lanka | Thailand |
|------------|------------|--------|-------|---------|-------|-----------|----------|
| Bangladesh | –          | 0      | 0     | 0       | 86.9  | 1.6       | 0        |
| India      | 0.5        | 0      | –     | 18.5    | 0     | 12.9      | 22.6     |
| Thailand   | 0          | –      | 483.3 | 111.5   | –     | –         | –        |

Source: IMF, CPIS Database

Note: Data for Myanmar, Sri Lanka, Bhutan, and Nepal are not available.

support development together. As a result, regional financial integration remains shallow and highly dependent on a few bilateral channels rather than a structured regional architecture.

For BIMSTEC member states short-term debt as a percentage of total reserves is 20 per cent or more<sup>7</sup> over the last decade, which could be problematic. While current conditions do not warrant a major crisis as such, the high short-term debt exposure could become a potent source of instability, leading to foreign exchange reserves depletion, sudden stops, and liquidity crises (Table A1). Precautionary holding of foreign exchange reserves continues to remain a critical buffer for the BIMSTEC member states. As per a widely used thumb rule of six months of import cover to address balance of payments stress, most of the BIMSTEC member states are deficient in comfortable

reserve buffers (Table 4). The recent episodes of financial instability in BIMSTEC including debt default and consequent balance of payments crisis in Sri Lanka, sharp reserve depletion in Bangladesh, and worsening trade deficits in Nepal reveal how the limited buffers may constrain the ability of these countries in preventing the adverse effects of external shocks like commodity price volatility and global financial tightening.

Literature suggests mechanisms such as emergency liquidity support, currency swap arrangements, shared foreign exchange reserves, joint monitoring, and data sharing can work alongside support from global institutions and provide quicker and more flexible help during financial crises.<sup>8</sup> Financial cooperation is useful besides mitigating the consequences of financial crises.

**Table 4: Foreign Exchange Reserves in BIMSTEC**  
(Month of Imports)

| Country | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------|------|------|------|------|------|------|------|------|------|------|------|
| BGD     | 5.6  | 6.8  | 7.6  | 6.8  | 5.7  | 5.9  | 8.7  | 6.3  | 4.2  | 3.4  | 3.2  |
| BTN     | 11.8 | 9.6  | 9.4  | 9.9  | 7.9  | 10   | 12.5 | 10.5 | 5.6  | 4    | 6.6  |
| IND     | 6.6  | 8    | 8.4  | 8.2  | 6.9  | 8.3  | 12.9 | 9.8  | 7    | 8    | 7.5  |
| MMR     | 3.1  | 2.9  | 3.3  | 2.9  | 3.1  | 3.3  | ..   | ..   | ..   | ..   | ..   |
| NPL     | 8.4  | 12.5 | 10.3 | 9.4  | 6.6  | 7.5  | 12.5 | 6.7  | 7.1  | 10.4 | ..   |
| LKA     | 3.9  | 3.5  | 2.8  | 3.4  | 2.8  | 3.4  | 3.3  | 1.6  | 1.1  | 2.4  | 2.9  |
| THA     | 6.7  | 7.4  | 8.3  | 8.8  | 7.8  | 8.9  | 12.2 | 9    | 7.1  | 7.6  | 7.5  |

Source: World Bank, World Development Indicators

Note: “..” indicates data not available.

<sup>7</sup> In general, the internationally recognized benchmark for reserve adequacy suggests that foreign exchange reserves should be at least equal to short-term external debt (100 per cent coverage) (SAFE, 2025). This principle is consistent with the Guidotti–Greenspan Rule, which stipulates that a country's reserves should be sufficient to cover all short-term external debt obligations falling due within one year, thereby providing protection against sudden stops in capital flows and abrupt capital withdrawals (Jeanne & Rancière, 2006).

<sup>8</sup> See Allen & Moessner (2010), EFC (2001) & UNCTAD (2020)

## Digitalization and Regional Financial Cooperation

The scale and speed of digitalisation have accelerated in the past decade across the world. Between 2005 and 2023, global internet users increased from about 1 billion to over 5.4 billion, while internet-connected devices were projected to reach nearly 35 billion (UNCTAD, 2024). ITU (2025) notes that in low- and middle-income countries, internet penetration rose from roughly 33 per cent to over 60 per cent within six years from 2019 to 2025, and mobile broadband network covers more than 96 per cent of the global population. The digital economy is estimated to account for around 15 per cent of global GDP,<sup>9</sup> with this share expected to rise further. Financial sectors worldwide have embraced widespread application of digital technologies.

BIMSTEC member states too are experiencing digital transformation across different sectors of their economies. The business models and mode of service delivery have responded faster to digitalisation in banking, insurance, securities, wealth management and other segments of the financial services industry. Digitalisation has significantly improved financial access and inclusion. Besides reducing cost of transactions, ensuring speed and transparency in processing of service demands, the overall ease of doing financial transactions by ordinary people seems to be the most tangible gains of digitalisation. Financial technology (fintech) is a rapidly growing segment in many countries of the world including the BIMSTEC member states. The promise of

financial inclusion and mainstreaming the excluded population with formal banking and financial sectors appears a plausible goal in BIMSTEC member states. For instance, the use of India's UPI in Nepal, Bhutan and Sri Lanka for retail payments and remittances is an outcome of novel fintech and digital finance solutions. Processing of loan application and credit disbursal has become faster and paperless through digital banking and fintech applications.

The widespread adoption of digital financial services, fintech solutions, cross-border payment systems, and data-driven financial intermediation is radically transforming the financial landscape. Digitalization is reshaping how finance is intermediated, regulated, and supervised, including the evolving role of central banks. New financial models based on Fintech, RegTech, wealth-tech, cryptocurrencies, and central bank digital currencies (CBDCs) are redefining the way finance works, often at a pace that outstrips regulatory developments (Feyen et al., 2021). Fintech innovations have reduced geographical and cost-related barriers to financial services, enabling remote account opening, digital KYC, and mobile-based payments.

In essence, digitalisation has turned financial cooperation from a secondary policy goal into a strategic imperative. Although BIMSTEC has made significant progress in trade, connectivity, and technology cooperation, there is no dedicated track for promoting regional financial cooperation, especially digital financial cooperation in BIMSTEC. As financial systems in BIMSTEC member states are increasingly getting digitalised and interconnected, risks emanating

<sup>9</sup> This estimate is provided by the International Data Center Authority (IDCA) in their Digital Economy Report, see (IDCA, 2025).

in one member country can quickly spill over into other countries further leading to regional financial instability. To address these challenges, there is a need for collective oversight, regulation, interoperable financial infrastructure, and a shared approach to risk management. Further, greater cooperation in finance and digital finance will be essential for building resilience, managing vulnerabilities, and ensuring that the benefits of digitalisation in trade, investment and finance catalyse sustainable and inclusive growth among the BIMSTEC member states. The BIMSTEC Secretariat may consider initiating dialogue on exploring financial cooperation within the scope of BIMSTEC cooperation.

## Mechanisms of Regional Financial Cooperation

The preceding discussion highlights that while BIMSTEC member states have made notable progress in regional economic integration, financial cooperation remains unexplored despite increasing economic interdependence and shared exposure to external financial shocks. Strengthening regional financial cooperation requires a combination of policy instruments, institutional arrangements, and payment infrastructure that can enhance financial stability, facilitate cross-border transactions, and support regional integration. Drawing on international experiences and recent developments among the BIMSTEC member states, the following section outlines key mechanisms that could strengthen the region's financial cooperation architecture.

## Strengthening Financial Safety Nets

As discussed in the previous sections, BIMSTEC member states remain vulnerable to external financial shocks owing to shallow financial markets, limited reserve buffers, and the absence of a regional crisis-management mechanism. Strengthening financial safety nets should therefore be a key pillar of regional financial cooperation.

The Global Financial Safety Net (GFSN) comprises four complementary layers (IMF, 2025):

- i. Countries' own foreign exchange reserves,
- ii. Bilateral currency swap arrangements between central banks,
- iii. Regional Financial Arrangements (RFAs),<sup>10</sup> and
- iv. International Monetary Fund (IMF) as the global lender of last resort.

Together, these layers provide liquidity support during balance-of-payments crises and help contain financial contagion. While BIMSTEC member states have access to national reserves and IMF facilities, regional financial cooperation remains fragmented. Some members participate in sub-regional arrangements, such as the SAARC Currency Swap Framework and the Chiang Mai Initiative Multilateralization (CMIM), whereas others rely primarily on bilateral arrangements and national policy measures. However, these mechanisms operate outside the BIMSTEC framework and do not

<sup>10</sup> RFAs such as the Chiang Mai Initiative for ASEAN+3 or the Contingent Reserve Arrangement (CRA) of BRICS.

constitute a common regional financial safety net for all member states.

Developing a BIMSTEC-wide financial safety net should therefore be considered a medium- to long-term objective. As an initial step, member states could expand bilateral liquidity support mechanisms and strengthen cooperation among central banks, which could subsequently evolve into a regional liquidity support framework as financial integration and institutional trust deepen. Such an arrangement, however, would require an appropriate institutional mechanism to coordinate surveillance, policy dialogue, and implementation.

### ***Institutional Framework for Regional Financial Cooperation***

Financial safety nets alone cannot ensure effective regional financial cooperation. Their success depends on an institutional framework that facilitates policy coordination, macro-financial surveillance, information sharing, and implementation. At present, BIMSTEC member states do not have a dedicated institutional mechanism for financial cooperation.<sup>11</sup> Consequently, engagement among central banks, finance ministries, and financial regulators remains largely ad hoc and is primarily conducted through bilateral or sub-regional initiatives rather than under the BIMSTEC framework. Experience from southern Africa also highlights the importance of dedicated institutional mechanisms. As per a World Bank study, in the absence of such a platform, regional financial cooperation remained fragmented and largely confined to bilateral information-sharing arrangements (World Bank, 2019).

International experience demonstrates that strong institutional arrangements<sup>12</sup> are essential for sustaining regional financial cooperation by undertaking regional surveillance, assessing financial vulnerabilities, and providing technical inputs for policy coordination. Rather than replicating this model in its entirety, BIMSTEC member states can explore an institutional framework suited to its own level of financial integration and diversity.

As a first step, BIMSTEC member states may consider establishing a dedicated Financial Cooperation Forum under the BIMSTEC Secretariat, comprising representatives from central banks, finance ministries, financial regulators, and payment system authorities. The Forum could facilitate regular policy dialogue, undertake macro-financial surveillance, promote information sharing, coordinate cross-border payment and local currency settlement initiatives, monitor implementation of financial cooperation programmes, and support capacity building among member states. Regular interaction among monetary and financial authorities would strengthen institutional trust and improve regional preparedness for external financial shocks.

Over time, as regional financial cooperation deepens, the Forum could evolve into a specialised technical unit responsible for regional surveillance, policy research, and implementation support. This institutional framework may provide the foundation for developing future BIMSTEC regional financial arrangements, including coordinated liquidity support mechanisms and other financial

<sup>11</sup> This argument is further supported by the Asian Development Bank (ADB), which notes that BIMSTEC remains one of the least integrated regions in Asia and the Pacific. According to the Asia-Pacific Regional Cooperation and Integration Index, BIMSTEC recorded a score of 0.377 in 2021, significantly lower than other regional groupings such as ASEAN (0.436), the Central Asia Regional Economic Cooperation (CAREC) Program (0.396), and the Greater Mekong Subregion (GMS) (0.405). The ADB attributes BIMSTEC's slow progress in regional cooperation and integration to delays in the approval of key agreements and the implementation of regional programmes and projects. See ADB (2024).

<sup>12</sup> The Chiang Mai Initiative Multilateralization (CMIM) in ASEAN+3, for instance, is complemented by the ASEAN+3 Macroeconomic Research Office (AMRO), which conducts regional macroeconomic surveillance, assesses financial vulnerabilities, and provides technical support for policy coordination. Similarly, the European Stability Mechanism (ESM) operates through an institutional governance framework that enables timely financial assistance and co-ordinated decision-making among member states. See, IMF (2017a).

cooperation initiatives. A phased institutional approach would enable BIMSTEC to strengthen regional financial resilience while allowing cooperation to evolve in line with the region's economic integration and institutional capacity.

### *Use of Local Currencies and Currency Swap Arrangements*

Expanding the use of local currencies and digital payment connectivity for trade and financial transactions can be an effective mechanism for deepening regional financial integration among BIMSTEC member states. Settlement in local currencies and digital transactions reduces transaction costs arising from multiple currency conversions, lowers exchange-rate risks for traders and investors, conserves foreign exchange reserves, and reduces dependence on the US dollar for intra-regional transactions. Recognising these benefits, BIMSTEC member states approved an expert mandate in 2025 to develop a Plan of Action for regional cooperation, including local currency trade settlement, to understand the needs of BIMSTEC countries to share the experience of Digital Public Infrastructure (DPI) and connectivity between UPI and payment systems in the BIMSTEC region (Government of India, 2025).

The greater use of local currencies should be complemented by bilateral currency swap arrangements among BIMSTEC member states central banks. Such arrangements enable participating central banks to exchange currencies under predetermined terms and conditions to address temporary liquidity shortages and facilitate local currency settlement (IMF, 2017b).

While some BIMSTEC member states participate in arrangements such as the SAARC Currency Swap Framework and the CMIM, these mechanisms operate outside the BIMSTEC framework. Expanding bilateral currency swap arrangements within BIMSTEC would therefore facilitate local currency settlement and provide a practical foundation for deeper regional monetary cooperation.

Digital payment connectivity represents another important dimension of regional financial cooperation. BIMSTEC has already witnessed encouraging progress through bilateral initiatives. India's Unified Payments Interface (UPI) has been linked with payment systems in Bhutan, Nepal, and Sri Lanka for retail payments and remittances.<sup>13</sup> Merchants within Fonepay's QR network in Nepal are accepting UPI transactions. With this arrangement Indian tourists and visitors can seamlessly make payments at 15 lakh merchant outlets in Nepal (NRB, 2025). Building on these experiences BIMSTEC could promote interoperable QR-code payment systems and cross-border digital payment connectivity to facilitate trade, tourism, and remittance flows across the region. ASEAN's experience with QR-code payment interoperability, together with initiatives such as Project mBridge, Project Guardian, and BRICS Pay, provide useful lessons for developing efficient cross-border payment and local currency settlement mechanisms (Yulius et al., 2023).

### **Conclusion**

Financial sectors in the BIMSTEC countries have witnessed rapid transformation in the recent years

<sup>13</sup> See PIB (2021), HCI (2024) & PIB (2026).

enabled through unliteral liberalisation and financial integration with rest of the world. The application of digital technologies in design, delivery and marketing of banking and financial services has added momentum to the pace of financial integration. The experiences of other regions suggest financial cooperation as a logical outcome at an advanced stage of regional economic cooperation. Regional financial cooperation enhances resilience against external shocks and support efforts towards sustainable development.

In recent years, the BIMSTEC countries have demonstrated robust economic growth and significant progress in digitalisation and regional connectivity. Despite opening of financial sectors, most of the countries in the BIMSTEC region continue to face structural vulnerabilities arising from shallow financial markets and uneven financial development. Past financial crises have shown that national policy responses alone may be insufficient to address systemic external shocks, underscoring the need for complementary regional financial cooperation mechanisms.

BIMSTEC is well positioned to build a pragmatic and phased framework for financial cooperation that reflects the diversity of its member economies. Rather than replicating existing regional models, the region can focus on strengthening financial safety nets through enhanced central bank cooperation, expanding bilateral currency swap arrangements, promoting local currency settlement, and developing interoperable cross-border digital payment systems. These initiatives should be supported by an appropriate institutional framework

at the Government-to-Government (G2G) level including a dedicated platform for regular engagement among the central banks, banks and financial institutions and regulators to facilitate policy dialogue, coordinated macro-financial surveillance, and monitoring of progress in regional financial cooperation commitments.

The progress made by BIMSTEC member states in advancing discussions on local currency trade settlement and digital financial cooperation provides a timely opportunity to deepen regional financial integration. Like initiatives such as CMIM and BRICS CRA, BIMSTEC may explore a financial cooperation architecture that suits to the level of development and matches the developmental aspirations of the member states. A gradual, flexible and institution-driven approach towards financial cooperation will not only strengthen the region's resilience to external shocks but also facilitate trade, investment, tourism, and remittance flows among the member states.

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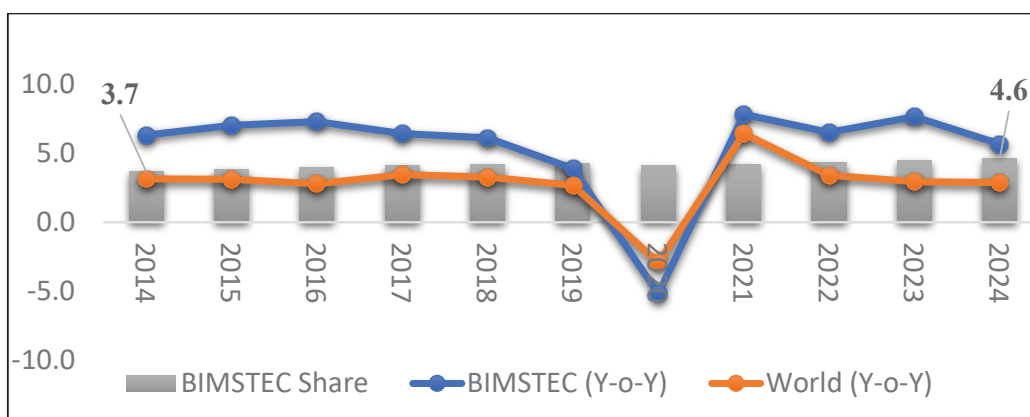
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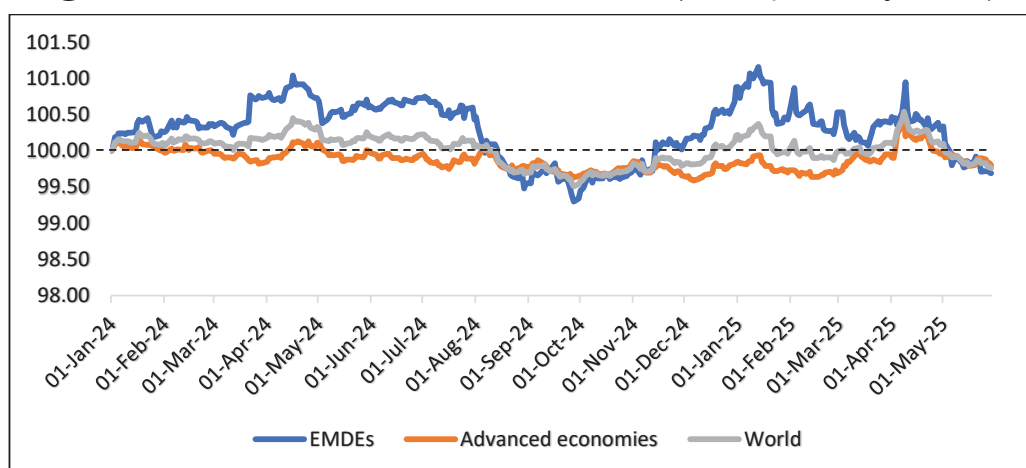
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Figure A1: Share of BIMSTEC in Global GDP (%) (2014–2024)



Source: Drawn by Authors based on WDI Database

Figure A2: Financial Condition Index (100= January 2024)<sup>14</sup>

Source: World Bank (2025), Global Economic Prospects.

Table A1: Short-term Debt (% of Total Reserves)

| Countries | 2014 | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021 | 2022 | 2023  | 2024 |
|-----------|------|-------|-------|-------|-------|-------|-------|------|------|-------|------|
| BGD       | ..   | 24.1  | 24.3  | 32.2  | 28.2  | 29.8  | 25.4  | 39.2 | 54.9 | 65.1  | 60.5 |
| BTN       | 0.3  | 0     | 0     | 0.2   | 0.4   | 2.2   | 0.1   | 0.3  | 0.7  | 0.1   | 0    |
| IND       | 26.3 | 23.1  | 23.2  | 23.7  | 26    | 23    | 17.5  | 18   | 22.5 | 20.2  | 21.7 |
| MMR       | 2    | 2.2   | 1.9   | 1.9   | 1.9   | 1.1   | 0.9   | 0.4  | 0.4  | 0.5   | ..   |
| NPL       | 5.4  | 4.3   | 4.3   | 4.5   | 3     | 4.6   | 3.1   | 3.5  | 3.5  | 3.4   | ..   |
| LKA       | 89.2 | 103.9 | 123.4 | 100.7 | 118.2 | 110.4 | 148.2 | 275  | 453  | 165.7 | 95.5 |
| THA       | 35.7 | 27.6  | 26.8  | 29.3  | 26.2  | 22.6  | 25.1  | 25.5 | 31.6 | 30.7  | 29.3 |

Source: WDI Database

Note: “..” indicates data not available.

<sup>14</sup> The Financial Condition Index (FCI) was developed by the World Bank. For methodology, interpretation, and additional information, refers to World Bank report “Global Economic Prospects (GEP)”, 2025.

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# RIS

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RIS specialises in issues related to international economic development, trade, investment and technology. It is envisioned as a forum for fostering effective policy dialogue and capacity-building among developing countries on global and regional economic issues. The focus of the work programme of RIS is to promote South-South Cooperation and collaborate with developing countries in multilateral negotiations in various forums. Through its following centres/forums, RIS promotes policy dialogue and coherence on regional and international economic issues.



The word “DAKSHIN” (दक्षिण) is of Sanskrit origin, meaning “South.” The Hon’ble Prime Minister of India, Shri Narendra Modi, inaugurated DAKSHIN – Global South Centre of Excellence in November 2023. The initiative was inspired by the deliberations of Global South leaders during the Voice of the Global South Summits. DAKSHIN stands for Development and Knowledge Sharing Initiative. Hosted at the RIS, DAKSHIN has established linkages with leading think tanks and universities across the Global South and is building a dynamic network of scholars working on Global South issues.



AIC at RIS has been working to strengthen India’s strategic partnership with ASEAN in its realisation of the ASEAN Community. AIC at RIS undertakes research, policy advocacy and regular networking activities with relevant organisations and think-tanks in India and ASEAN countries, with the aim of providing policy inputs, up-to-date information, data resources and sustained interaction, for strengthening ASEAN-India Comprehensive Strategic Partnership.



CMEC has been established at RIS under the aegis of the Ministry of Ports, Shipping and Waterways (MoPS&W), Government of India, and in collaboration with the Indian Ports Association (IPA). It has been mandated to act as an advisory/technological arm of MoPSW to provide the analytical support on policies and their implementation.



FITM is a joint initiative by the Ministry of Ayush and RIS. It has been established with the objective of undertaking policy research on economy, intellectual property rights (IPRs) trade, sustainability and international cooperation in traditional medicines. FITM provides analytical support to the Ministry of Ayush on policy and strategy responses on emerging national and global developments.



BEF aims to serve as a dedicated platform for fostering dialogue on promoting the concept in the Indian Ocean and other regions. The forum focuses on conducting studies on the potential, prospects and challenges of blue economy; providing regular inputs to practitioners in the government and the private sectors; and promoting advocacy for its smooth adoption in national economic policies.



FIDC, has been engaged in exploring nuances of India’s development cooperation programme, keeping in view the wider perspective of South-South Cooperation in the backdrop of international development cooperation scenario. It is a tripartite initiative of the Development Partnership Administration (DPA) of the Ministry of External Affairs, Government of India, academia and civil society organisations.



FISD aims to harness the full potential and synergy between science and technology, diplomacy, foreign policy and development cooperation in order to meet India’s development and security needs. It is also engaged in strengthening India’s engagement with the international system and on key global issues involving science and technology.



As part of its work programme, RIS has been deeply involved in strengthening economic integration in the South Asia region. In this context, the role of the South Asia Centre for Policy Studies (SACEPS) is very important. SACEPS is a network organisation engaged in addressing regional issues of common concerns in South Asia.



Knowledge generated endogenously among the Southern partners can help in consolidation of stronger common issues at different global policy fora. The purpose of NeST is to provide a global platform for Southern Think-Tanks for collaboratively generating, systematising, consolidating and sharing knowledge on South South Cooperation approaches for international development.

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