

## **Bimal Jalan: A review of the Asian Clearing Union**

Welcome address by Dr Bimal Jalan, Governor of the Reserve Bank of India, at the 32nd ACU Board Meeting, Bangalore, 16 June 2003.

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Honourable Governors and distinguished Delegates, Guests, Ladies and Gentlemen:

It is a great privilege for me to welcome you to this 32<sup>nd</sup> Board meeting of the Asian Clearing Union (ACU). I am happy that this meeting is being held in the city of Bangalore, known as the 'City of Gardens', with a great tradition in music, literature, architecture, science and technology. The city is now known even more as India's leading city for information technology.

Before proceeding further, I should mention with immense grief that Dr. Mohsen Nourbakhsh, the Governor of the Central Bank of the Islamic Republic of Iran is no more with us. He was one of the finest and leading personalities of the ACU fraternity. I request this House to stand in silence and pay our humble respect to the memory of Dr. Nourbakhsh.

The ACU Board meeting is being held in India after a gap of seven years - the previous one was held in May 1996 at Mumbai. I am sure that this meeting, as was the case with all the earlier occasions, will also prove to be a fruitful one and would be an important landmark in the consolidation and further strengthening of the ACU.

The Asian Clearing Union (ACU), which started functioning in November 1975, has completed 27 years of successful operations. It has proved to be a strong and purposeful regional arrangement benefiting its members by optimizing the use of their foreign exchange resources. From a humble beginning of trade worth USD 51.4 million during the first year of its operations, the Union has grown into a reasonably powerful entity for regional co-operation in Asia. During the year 2002 it clocked a turnover of almost USD 7 billion.

### **Benefits of ACU**

We may recall that ACU was formed at a time when the countries in the region were facing acute shortage of foreign exchange and, therefore, had stringent exchange controls. The Union provided the member countries with the twin advantages of economizing on the use of foreign exchange and also availing of short term credits during the period of the settlement cycle. In the process, the governments of the member countries, their monetary authorities and central banks have established close and purposeful relationships. Further, the bankers and traders in the member countries benefited from lower transaction costs. The ACU has established a creditable settlement record in that there has been no default at all since the Union started functioning.

A significant contributory factor for the success of the ACU was the switching over of the union's accounting unit from AMU (Asian Monetary Unit) to the ACU dollar. Under the current system, in vogue since 1996, traders are being allowed not only to invoice their documents in US dollars but also to make and receive payments in dollars. Commercial banks in member countries are allowed to open nostro accounts in ACU dollars to facilitate all receipts and payments. Further the central banks are arranging to fund as well as absorb excess liquidity from these accounts.

The switchover has facilitated the application of real time rates and up-gradation of the entire ACU mechanism to be in tune with the rapid changes in the international forex markets due to the revolutionary changes in satellite communications and wide ranging financial sector liberalization in the developing economies. As a result, the transactions are now being settled expeditiously and in true reflection of the market value of the currencies of member countries.

Further, the switchover to ACU dollar for accounting of all the transactions of the Union has facilitated market participants in member countries to get forward cover for their transactions and also made them eligible to get pre-shipment and post-shipment credit denominated in foreign currencies.

It is heartening to note that India has been playing a key role in the success of the ACU mechanism, topping the turnover table year after year. Its share in the volume of transactions has been around 40% followed by the Islamic Republic of Iran and Bangladesh at 23 per cent and 17 per cent respectively on an average, during the last three years.

In the last Board meeting my distinguished colleague from Sri Lanka, Governor Jayawardena rightly described ACU as the oldest institution for regional co-operation in Asia. Having been set up at a time of severe shortage of foreign exchange and having served the member countries well, the Union has reached a stage where there is a need to evaluate the future role of the ACU to adjust to new realities. In this context, Governor Jayawardena had suggested that the terms of reference of the ACU needs to be revisited, and I am glad that a technical team with the help of ESCAP has gone into this aspect.

### **Future role of ACU**

For the evolution of ACU in the coming years the recommendations of the Technical Committee, which examined 'The Future role of ACU' and related issues are important. The Committee felt that the Union should continue in its present form and should continue to focus on the facility to settle, on a multilateral basis, payments for current international transactions and thus economise on the use of foreign exchange reserves. It has, however, highlighted that the ACU mechanism needs to demonstrate the tangible benefits it could provide to its members. On the expansion of ACU, the Committee has pointed out that neighbouring countries would join the mechanism only if they are convinced of the benefits they could derive from the membership. It is, therefore, necessary to make the ACU mechanism more efficient in the first instance and enhance the volume of trade routed through the arrangement. In this context, the Committee has noted that administrative bottlenecks have been hampering the progress of use of the mechanism to some extent. If ACU mechanism has to become popular, these bottlenecks have to be removed.

Keeping the need of efficient telecommunication facilities among member countries in view, the Committee has also recommended that all the member countries could introduce SWIFT system for transmitting messages to facilitate faster settlement of transactions especially in view of the fact that use of telex is being discontinued by most countries. Introduction of the Real Time Gross Settlement System (RTGS), although expensive, could be thought of as a medium term objective by member countries.

Apart from improving upon the existing operational mechanism of ACU to enhance efficiency of the Union it could now be used as a forum for free exchange of views among the members. The Union could become a strong and non-political forum of central banks in the region to discuss issues relating to economic co-operation among member countries within the ACU mechanism on the one hand, and other areas like exchange rate management and foreign exchange reserve management with a view to evolving appropriate approaches to resolving technical issues on the other. The forum could also facilitate exchange of experiences on developments taking place in the respective economies, problems faced by individual member countries etc. The Board may like to deliberate on the details of the recommendations of the Technical Committee when its Report is presented, later during the day.

### **Other issues**

Besides the issues concerning the ACU mechanism which I have just mentioned, perhaps this august gathering can deliberate on other issues like the overall economic development of the region. The global economy is clouded by uncertainties. The major economies of the world are plagued by sluggish growth and are searching for ways to improve their performance. Compared to the industrialized nations, developing countries are faring better. Within the ACU, most of the member countries recorded annual growths in excess of 4% during 2000-2001. This augurs well for the ACU. However, there is need for better volumes of trade amongst the member countries so that the system of ACU could be utilized to the full extent for the maximum benefit of each of them.

There is need for further efforts at increasing economic co-operation among members and closer relationships among the banking systems of the countries. In the scenario of fast emerging developments, prompted by technology and deeper integration of global markets, it is imperative that ACU members should continuously update themselves technologically and be quick in adopting new and more efficient methods of operations. As recommended by the Technical Committee, members who are yet to switch over to SWIFT, should do so expeditiously, in order to enable ACU to aim for and achieve 'real time' settlements as soon as possible.

There is also a strong need to expand the membership. Besides Maldives, the possibilities of bringing in Thailand, China, Malaysia and countries like Tajikistan, Uzbekistan and others should be explored.

The expanded membership will help in better utilization of this important mechanism for the benefit of all the members.

It is in this context that we have invited Thailand to attend this meeting. I extend a warm welcome to the representatives from the Bank of Thailand. After this meeting, they will be visiting our office in Mumbai to study in detail the working of the ACU mechanism and its utility for the member countries. I earnestly hope that they will be convinced about the benefits of membership of the ACU.

Before I conclude, on your behalf and mine, I would like to pay a special tribute to the contribution of Dr. Mohammad Firouzdor, Secretary General, to the work of ACU. I have been informed that he proposes to retire from his position next week. As you are aware he has been the guiding spirit behind the ACU Secretariat for the last six years. Through his excellent efforts, among many other matters, Dr. Firouzdor has ensured that the switchover to ACU clearing mechanism is smooth and efficient. He was also instrumental in bringing the settlement mechanism to best international standards. All of us are grateful to him for the valuable contribution he has made to the success of ACU and wish him a healthy and happy retired life.

A successor to Dr. Firouzdor would also need to be elected at this meeting. I propose we take up this item under our last agenda on 'any other business'.

We earnestly hope that your stay during this Board Meeting will be comfortable and enjoyable. Once again, let me say how happy I personally, and the Reserve Bank are to welcome you to our country and to the City of Bangalore.

Thank you.