Research Paper Commerce

Globalization and the Indian Capital Market

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ABSTRACT

Capital market in any country plays a pivotal role in the growth of economy. The financial system is a dynamic segment of the country's future growth trajectory. It is a well-recognized fact that efficient, developed and liberalized financial markets can lead to better economic growth by improving the efficiency of allocation and employment of savings in the economy. Ever since the reforms started in the 1990's, the Indian Capital Market has grown rigorously in financial depth.
The entire paper is divided into three parts. In the first part discussed the conceptual framework of the capital market and in the next section; focused on the trends in Globalization and the Indian capital market. In the third section: discussed after the global financial crisis of the capital market in India.

KEYWORDS Indian Capital Market, Globalization, Financial Crisis

INTRODUCTION

Indian Capital Markets have shown tremendous growth in the post Liberalization era. It remains one of the most resilient globally and poised to be one of the Top destinations for domestic and global businesses to expand and invest into. As global economy moves for imminent recovery, India has shown extraordinary strength to bounce back with greater stability and sustainability.

The capital market plays a very important role in promoting economic growth through the mobilization of long-term savings and the savings get invested in the economy for productive purpose. The capital market in India is a well-integrated structure and its components include stock exchanges, developed banks investment trusts, insurance corporations and provident fund organization.

In most developing countries, the Stock market liberalization took place during the period 1985 to 1995 when market capitalization of all emerging markets increased by 1,007 percent compared to an increase of 253 percent in the case of developed markets. The share of emerging markets in the world market capitalization increased from 4 percent in 1985 to 11 percent in 1995. Similarly, the trading value in these markets increased by 2,189 percent compared to 564 percent increase for the developed markets over the decade. As a result, the emerging markets share in trading volume increased by more than three times, i.e., from 2.7 percent to 8.9 percent in ten years, signaling significant growth in these markets (Husain & Qayyum, 2006).

OBJECTIVES OF THE STUDY

1. To study the concept of Capital Market
2. To study Globalization and the Indian Capital Market
3. To find the challenges of the Indian Capital Market

RESEARCH METHODOLOGY

Data Collection: This is a descriptive research paper based on secondary data. Data have been collected through the websites, research paper, Journals, magazines and Books.

CONCEPT OF CAPITAL MARKET

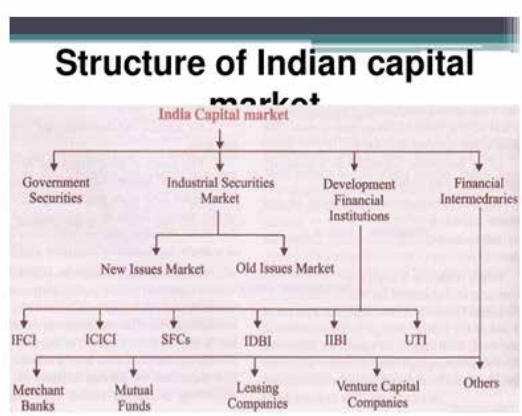
Capital market is the financial market for the buying and selling of the long term debt or equity backed securities. The market channels the wealth of savers to those who can put it to long term productive use. Modern capital markets are hosted on computer based electronic trading system which can be accessed by entities within the financial sector. The capital market can be divided into :

1) Primary Market: It deals with issue of new securities .Companies, government, and public sector institutions can obtain funds through sale of new stock or bonds issue.
2) Secondary Market: It is also called liquid market. In this market the securities are sold by or transferred from one investor to another. Thus, this market gives liquidity to the long term securities.

TYPES OF STOCK MARKET IN INDIA

India's economy, although still considered developing, is becoming one of the biggest in the world. This is due largely to the country's technical prowess and attractiveness to overseas countries looking to outsource. The country has a number of stock exchanges on which investors who wish to capitalize on India's growth story can invest their money.

1. Bombay Stock Exchange
2. National Stock Exchange
3. Other Stock Exchange
4. Foreign Investing in India
5. Regulatory Body



GLOBALIZATION AND THE INDIAN CAPITAL MARKET

Reforms to capital markets were high on the priorities of policy makers when India embarked on market-oriented reforms in the early 1990s. These efforts had several motivations: the broad idea of markets playing a dominant role in resource allocation, an awareness of the opportunity cost that India was suffering by not being open to global capital flows and an immediate reaction to the fixed income and equity market scandal of 1992.

The Securities and Exchange Board on India Act, 1992 (the SEBI Act) came into existence with the primary objective to protect, develop and regulate the security markets. Since then, the capital markets in India have experienced tremendous progress because of the well-developed regulatory system in place. Although, there are a total of 23 Stock exchanges in India, the information in table 1 reveals that out of total, the major trading takes place in just two stock exchanges, that is, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

Table 1:
Trading Statistics of Indian Stock Exchanges (Quantity of Shares Traded) (Lakh)

Stock Exchange	2006-07	2007-08	2008-09	2009-10	2010-11
BSE	5,60,780	9,86,005	7,39,600	11,36,513	9,90,776
CLCUTTA	453	298	235	551	778
NSE	8,50,515	14,81,229	14,18,928	22,05,878	18,10.910
UPSE	151	74	23	5	0
TOTAL	14,11,945	24,67,606	21,58,786	33,42,947	28,02,464

Source :- SEBI Report 2012

Primary Market
Data from these two stock exchanges reveals that during the financial year 2012-13 resource mobilization through primary market (equity issue) witnessed an upward movement (Table 2).

Table 2:
Resource Mobilization through the Primary Market (Rs. In crore)

Mode	2009-10	2010-11	2011-12	2012-13
Debt	2500	9451	35611	4974
Equity	46736	48654	12857	13050
Of which IPOs	24696	35559	5904	6043
Number of IPOs	39	53	34	20
Mean IPO size	633	671	174	302
Private placement	212635	218785	261282	263644
Total	261871	276890	309750	281667

Source: Securities and Exchange Board of India (SEBI)

Notes: # as on 31 December 2012 (Provisional); the Equity issues are considered only equity public issues; The cumulative amount mobilised as on December 2012 through equity public issues stood at Rs.13,050 crore. During 2012-13, 20 new companies [initial public offers (IPOs)] with resource mobilisation amounting to Rs.6,043 crore were listed at the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) with mean IPO size of Rs.302 crore. (Economic Survey 2012-13).

Secondary Market
Sensex and Nifty are the barometer of India's feel-good factor was at 21,000 marks prior to Global Financial crisis followed great recession worldwide. However, in recent years both the index witnessed volatile trends due to global and domestic factors.

Table No. 3
Trading Statistic of BSE & NSE from 2007 to 2011

ITEM	2007-08	2008-09	2009-10	2010-11	2011-12
BSE	986005	739600	1136513	990776	654137
NSE	1481229	1418928	2205878	1810910	1605205

(Source: - SEBI)

The NSE shows increasing trend of quantity of shares delivered where as BSE shows fluctuating trend through out the period of 2007-08 to 2011-12 performance of Derivative Market

Table No 4
Equity Derivative Segment of BSE and NSE from 2007-2011

Item	2007-08	2008-09	2009-10	2010-11	2011-12
BSE	7453356	496502	9026	5623	32175320
NSE	315552569	644094527	665277652	100170366	1168551087

Source :- SEBI

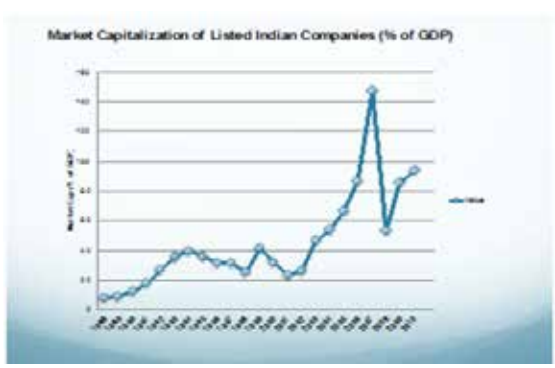
A derivative is a security whose price is dependent upon or derived from one or more underlying assets. Its value is determined by fluctuations in underlying asset Investors can use equity derivatives to hedge the risk associated with taking a position in stock by setting limits to the losses incurred by either a short or long position in a company's share.

The NSE shows increasing trend in trading of equity derivatives throughout the period from 2007-08 to 2011-12. The BSE shows fluctuating trend for the same.

THE SLOW DOWN AFTER THE GLOBAL FINANCIAL CRISIS
Ever since the Indian Economy was liberalized, India has seen a tremendous growth of its capital markets with close to 5,000 Initial Public offerings (IPOs), second only to the United States, although the Capital raised was lesser than other BRIC countries (Desai, 2011). In the year 2010, India ranked 4th with respect to the amount of capital raised, contributing to 3.7% of Global IPO share, China contributed to almost 47% of the Global Capital raised in IPOs. From 2008 to 2010, the amount raised in IPOs in China increased by 250%, but in India, there was no substantial increase. This seemed to indicate that the Indian Capital Market is losing its growth momentum in the post crisis financial world and that china is increasingly becoming popular with respect to attracting foreign capital. (Ernst & Young, 2011).

Even though, the Indian equity market has become the third largest after China and Hong Kong in the Asian region. According to a report by Asian Development Bank, as of March 2009, the market capitalization was around $598.3 billion (Rs 30.13 lakh crore) which is one-tenth of the combined valuation of the Asia region. The market experienced a slowdown since early 2007 and continued till the first quarter of 2009.

The market capitalization of Indian Stock market can be traced in figure:1 below and the dip as the result of the global crisis is quite evident. Later, the market has revived to an improved level, but the growth rate seen before the crisis has not yet been attained



After the shock of the global financial crisis, emerging as well as developed economies are trying to figure out whether openness is necessary for a healthy financial sector. India has a choice between two pathways, as to how to progress in the future. The two pathways are, either to retreat from the current position of further liberalizing the financial sector, which would eventually result in lower growth, or either to advance forward with gradually liberalizing but at the same

time regulating and controlling the cross border capital flows. The strong critique of financial liberalization relates not only to the enhanced possibility of crises, but to the argument that it has a clear bias towards deflationary macroeconomic policies and forces the state to adopt a deflationary stance to appease financial interests. (Patnaik, 2003).

CHALLENGES OF THE INDIAN CAPITAL MARKET

Indian Economy is the tenth largest economy in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). Following a strong economic reform post-independence socialist economy, the country's economic growth progressed at a rapid pace, as the LPG policy was implemented in 1991 for international competition and foreign investment. Despite fast economic growth, India still faces massive income inequalities, high unemployment and malnutrition.

Following are the main challenges which act as a hurdle in the growth of capital market:

- Inflation
- GDP
- Index of Industrial Production
- Population
- Non uniform Tax reforms
- Foreign Policy
- Education and Unemployment
- Poverty

CONCLUSION

The health of an economy is reflected in the performance of its capital market. India's economic growth is second only to China but unfortunately the phenomenal growth rate has not reflected in the performance of its capital market.

Stock market is considered as most suitable investment for the common people as they can invest their money into the diversified managed portfolio at relatively low cost. It may be concluded that due to number of reforms, the capital market of India has developed a lot; it has made it possible to compare Indian capital market with the international capital market. SEBI is doing a lot of work for the development of capital market. It has brought greater transparency in the affairs of organizations and stock exchanges, though not to the optimum mark. Still the investor doesn't have hundred percent confidences in capital market. It seems that SEBI worked slowly in transforming Indian stock market into a globally competitive and contemporary market.

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