FINANCE
apital Markets : Has India Caught This Wave ?
EVOLUTION OF INDIAN CAPITAL MARKET AS GLOBAL FINANCIAL POWER HOUSE

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ABSTRACT :

Finance is the study of money. Capital market deals in long term fund of duration one year or above. Globalization means integration of financial market through out the world for raising and investing funds. The factors integrating this globalization are : Liberalization , Technological Advancement and Institutional Investors. Indian Financial Market has been Globalized during 1990 s. Some factors like low penetration of Indian household investors in capital market, Large investment opportunities in Indian capital market , India as an attractive destination for foreign investors, Availability of large labour fource and high growth rate in India, Ambitions of Indian inc to reach global markets market, Setting up of special economic zone(SEZ), Productive use of idle cash reserve concept of merger and acquisition, Venture capital and private equity investments has influenced a lot of foreign investors to invest in India and has influenced globalization of Indian capital market.

INTRODUCTION :

Finance is the study of money , its nature , creation , behavior, regulation and administration. Financial market , facilitates the trading of financial assets. Financial market play a significant role in transferring surplus fund from saver (lender) to borrowers (investors). Financial market is classified as : Money Market and Capital Market. (i) Money Market : It is the mechanism where short term instruments maturing within a year are traded. (ii) Capital Market : It is a market in which lenders or investors provides long term funds of the duration of above one year in exchange for financial assets offered by borrowers or holders.

The capital market in India is divided into : Organized and Unorganized sectors . (i) Indigenous bankers and Money lenders constitutes the unorganized sector of capital market . (ii) The organized capital market consists of : Non-Banking institutions like and Public Financial Institutions.

rument that represents either ownership or ship securities are equity shares and p securities are bonds and debentures.

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Globalization of Financial Markets :

Globalization means the integration of financial market through out the world into an international financial market. Entities in any one country seeking to raise funds need not be limited to their domestic financial market. Even investors in a country is not limited to the financial assets issued in their domestic market. The factors integrating this globalization are : Liberalization, Technological Advances and Institutional Investors.

(i)**Liberalization** :Deregulation and liberalization of markets and activities of market participants in key financial centers of the world. Global competition has forced governments to deregulate or liberalize various aspects of their financial markets so that their financial enterprises can compete effectively around the world.

(ii) **Technological Advances**: For monitoring world markets, executing orders and analyzing financial opportunities. Technological advances have increased the integration and efficiency of the global financial market. Advances in telecommunication systems link market participants through out the world with the result that order can be executed within seconds. Advances in computer technology, coupled with advanced telecommunication systems, allow the transmission of real-time information on security prices and other key information to many participants in many places. Therefore many investors can monitor global markets and simultaneously assess how this information will impact the risk/reward profile of their portfolios. Significantly improved computing power allows the instant manipulation of real-time market information so that attractive investment opportunities can be identified. On identification of these opportunities, telecommunication system permits the rapid execution of orders to capture them.

(iii) **Institutional Investors** : Increasing institutionalization of financial markets. The shifting of the role of two types of investors , retail and institutional investors , in financial markets is the third factor that has led to the integration of financial markets. The U.S. financial market has sifted from being dominated by retail investors to being dominated by institutional investors. Retail investors are: individuals . Institutional investors are : Financial Institution –Pension Funds, Insurance Companies, Investment Companies, Commercial Banks, Savings & Loan Associations. The shifting of financial markets in U.S. and other major industrial countries from

to institutional investors is referred as
rkets.

Unlike retail investors , institutional investors have been more willing to transfer funds across national borders to improve the risk/reward opportunities of a portfolio that includes financial assets of foreign issuers. The potential portfolio benefits associated with global investing have been documented in numerous studies, which have highlighted the awareness of investors about the virtues of global investing . Investors have not limited their participation in foreign markets to those of developed economies. There has been increased participation in the financial markets of developing economies, popularly known as emerging markets.

Indian Financial market have been globalized in 1990's to a good extent. The global financial market can be divided into three sectors :Domestic Market, Foreign Market and International Market :

(i) **Domestic Market** : In domestic market issuers are domiciled in the country where the securities are issued and where those securities are subsequently traded.

(ii) **Foreign Market** :Foreign market of a country is where the securities of issuers are not domiciled in the country are sold and traded. Rules governing the issuance of foreign securities are those imposed by regulatory authorities where the security is issued. Nicknames have been used to describe various foreign markets : Yankee Market (USA), Samurai Market (Japan), Bulldog Market (United Kingdome), Rembrandt Market (Netherlands), Matador Market (Spain).

(iii) **International Market** : This external market includes securities with following distinguishing features : at issuance they are offered simultaneously to investors in number of countries, and they are issued outside the jurisdiction of any single country . The external market is commonly referred to as : Offshore Market , Euromarkets.

MATERIAL AND METHODS :

Under this studies the factors influencing globalization of Indian capital markets have studied. The countries investing in India has also been identified and the comparative proportion of foreign investment in India in comparison to China has also been examined.

Factors Influencing Globalization of Indian Capital Market :

1)LOW PENETRATION OF INDIAN HOUSE HOLD IN CAPITAL MARKET: Indian household investors are of the habit of investing chunk of their amount in financial savings in money market and only a small amount of their savings are invested in capital market . During last ten years the investment of savings from Indian households in capital market in terms of shares and debentures has declined from 14.4 % during 1994-95 to only about 1.8 % in 2003-2004 at current price level (table-1) and this influences Indian capital market towards globalization for attracting larger capital investments.

Table -1- Investment trend of Indian households in Share and debentures.

(Figures in Rupees Crores at current price)

Year	TotalHousehold Savings	Household Financial Savings	Savings in Shares & Debentures	%of Shares& Debentures
1994-95	1,99,358	1,20,733	17,381	14.4
1995-96	2,16,140	1,05,719	9,101	8.6
1996-97	2,33,252	1,41,661	10,407	7.3
1997-98	2,68,437	1,46,777	5,060	3.4
1998-99	3,26,802	1,80,346	6,993	3.8
1999-00	4,04,401	2,05,743	18,188	8.8
2000-01	4,52,268	2,16,774	10,214	4.7
2001-02	5,13,100	2,53,964	7,777	3.1
2002-03	5,74,681	2,54,439	5,504	2.2
2003-04	6,71,692	3,14,261	5,699	1.8

2)LARGE INVESTMENT OPPORTUNITIES IN INDIAN CAPITAL MARKET: It is boom for investors in Indian stock markets, the benchmark Bombay Stock Exchange’s Sensex is virtually sprinting from 7000-7800 in just 32 trading days. The surge is being driven by a flus h of liquidity brought about by bullish foreign institutional investors (FII s) . The coming up current public issues opportunities : Both initial public offerings(IPO s) and the Follow-up Public Offerings (FPO s) is estimated to be Rs: 72,814 crores (around $ 16.54 billion) . The amount to be raised in next 12 month is bigger than , what companies have raised , cumulatively, over the last decades, right up to March this year. To meet this requirement India has to look towards globalization and foreign investors.

E DESTINATION FOR FOREIGN INVESTORS: Emerging market in India continue to be an attractive destination for Foreign Institutional Investors (FII) , with total FII inflow into Indian equities already exceeding $ 6 billion th is year till July 2005, at this rate FII inflow is expected to exceed $ 10 billion by the end of year 2005.The FII inflow last year 2004 was $ 8.5 billion and that during the year 2003 was $ 6.4 billion.

4)AVAILABILITY OF LARGE LABOUR FORCE AND HIGHER GROWTH RATE IN INDIA IS SUPPORTING GLOBALISATION OF INDIAN CAPITAL MARKET: India has a large labour force , 2nd largest in the world 482.2 million during the year 2004. This labour force has contributed to more than 9 % growth rate in manufacturing and service sector . This will in evolving Indian capital market as global power house in coming years. As the comperative GDP growth rate in comparison to USA and EU where the GDP growth rate is 3.6 and 1.2 respectively. This globalization is gradually supporting in increasing employment and productivity.

5) GLOBALISATION OF INDIAN CAPITAL MARKET HELPS INDIAN INC TO REACH GLOBAL MARKETS: Foreign direct investment is a mirror that reflects the extent to which a country and its companies have integrated globally . Going by the logic , it must be a painful sight for most Indian companies to held a mirror to their balance sheets. Once again the characteristic timidity of the Indian Inc is clearly visible on both sides : Whether it is incoming FDI or Outgoing FDI.
The comparative FDI in Asian countries is indicated in Table -2.

Table-2- FDI to and from Asian countries ($ billion) Source: IMF

Country	Inward FDI		Outward FDI	
	2003	2004	2003	2004
China+Hongkong	13.6	34.0	-0.2	1.8
India	4.3	5.3	0.9	2.3
Singapore	9.3	16.1	3.7	10.7
Japan	28.8	31.0	6.3	7.8
Korea	3.4	4.8	3.5	8.2

ZONE (SEZ) SUPPORTS GLOBALISATION:SEZ is an area having economic policies and laws which are typically different from the laws prevailing within the main land. China has established a number of SEZ each with an average area of 145 sq km , while India has only 8 active SEZ with an average area of 9 sq km. China has attracted large FDI in its SEZ , but this has not su cceeded in India so far.

7)GLOBALISATION SUPPORTS PRODUCTIVE USE OF SURPLUS & IDLE CASH RESERVE , MERGERS AND ACQUISITIONS:A few years ago , Aziz Premji of Wipro and his former vice-chairman Vivek Paul were considering a big ticket acquisition in US to catapulate Wipro into IT and consulting big league at one stroke . They had a war chest of $ 800 million , yet Wipro got the jitters at last minute and backed out. Around the same time a virtually unknown PC maker from China , Lenovo was nursing global ambitions. Lenovo did not get the jitters . It ended up buying the out the global PC business of IBM , the mother of all IT companies in a deal worth more than $ 2 billion.

In April 2005, there was cheers as India's fastest growing home grown bank, ICICI , acquired the Russian bank IKB . It finally looked as if Indian companies were looking seriously at globalization . Let us look at inside story . ICICI's net profits in 2004-05 was Rs 20 billion . The cash balance of ICICI Bank in the same period were about 150 billion . The price tag ICICI paid for IKB : a small Rs 18 million . Around the same time big foreign banks like Citi,ABN Amro,HSBC,Stanchart has lined up more than Rs 50 billion to ramp up their Indian operations. Indian companies are yet to match their global counterparts in leveraging cash holds to muscle their way into international market.

Investments in Mergers & Acquisition during year Jan-Jun 2005 , Japan has invested more than $ 100 billion , China has invested $ 17 billion and India has invested only around $ 8 billion. The investment in mergers and acquisitions is an indicator towards globalization of capital market.

8)GLOBALISATION OF INDIAN STOCK MARKET HAS MOTIVATED VENTURE CAPITAL/PRIVATE EQUITY INVESTMENT IN INDIA: In last 10 years after globalization of Indian capital market the venture capital investment in India has increased 100 times. The companies like 3i, Texas Pacific Group, The Blackstone, The Carlyle Group are new internets in globalized Indian capital markets. The venture capital/Private equity/ Risk capital investment in 1996-97 was $ 20 ed $ 1,750 million in IT sectors of India as

THE SOURCES OF FOREIGN INVESTORS COMING TO INVEST IN INDIAN CAPITAL MARKET

The Indian stock market is attracting foreign institutional investors(FII) of all types. Of the total of $ 37 billion FII investments in India since 1994, a fifth has flowed in during first eight months of 2005 . During this year 123 FII from 20 countries have registered . The country wise they are : USA 37, Canada 3, Port of Spain 1, UK 22, Luxembourg 12, France 6, Switzerland 4, Australia 6, Singapore 9, Hongkong 2, Taiwan 2, Japan 2, Korea 2. The sectored investment in prominent areas are : Pension Trusts 16%, Insurance Companies 4%, Government Bodies 3.2%, Banks 14.4%, Capital Investment and Asset Management Company 62.4%.

RESULTS & SUGGESTIONS :

China opened its economy in 1980 and since then China had received $ 500 billion worth of foreign investment of these nearly $ 60 billion name in calendar year 2004. However so India could attract only around $ 50 billion foreign investment since 1980 and during 2004 it was less than $ 6 billion. That means the speed of globalization of the Indian stock market is only 10% of China.

Now it is essential that like Indian commercial banks Indian stock exchanges has to open its branches in various parts of India and in foreign country to provide quick liquidity to capital instrument and on the spot investment and allotment of instruments to investors. The term *broker or dalal* should be changed to agent or service personel.

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