Journal of Advances in Science and Technology
Vol. 12, Issue No. 24, November-2016, ISSN 2230-9659

Effect Associated with Globalization with Stock Market Improvement in India

Prashant J. Shaha[1]* Dr. Ashutosh Verma[2]

[1]Ph.D. Research Student, MUIT, Lucknow

[2]Research Guide, MUIT, Lucknow

Abstract* – *An advanced stock market is recognized vital to national investment development as it gives an extra channel in addition to banks and other money related organizations, for supporting and in this way mobilizing household reserve funds. It additionally guarantees upgrades in the benefit of investment through market designation of capital and increments managerial train through the market for corporate control. A study by World Found for Development Economic Research has contended that the improving nations may as well liberalise their money related markets so as to lure foreign portfolio value stream. The gigantic measure of fiscal capital accessible in the improved nations through annuity and investment reserves could be pulled in to the advancing nations furnished the last liberalized their markets remotely what's more improved their stock market inside. The investment made by FII's in any capital market has snatched the consideration of specialists to distinguish the relationship between the capital market exhibition and net inflow of FII's. The present study is centered to test the relationship in the development of investment by foreign institutional gurus and development of Indian stock market. To finish up it could be said that the level of relationship is extremely level in the capital streams by FII's on Indian stock markets and development in the stock market files.

Keywords: Globalization, Stock Market, Improvement, India, Investment, Development, Benefit.

---------------------------♦-----------------------------

INTRODUCTION

Throughout 1980s, the advancing nations began liberalizing their economies. Value streams to improving nations have expanded sharply as of late subsequently (Bhaduri, 2000). There has been a more excellent accentuation on the development of value markets as a part of money related changes. India has additionally emulated this way. With the globalisation, fiscal markets are coming to be more significant each day.

Capital markets have taken a conspicuous place in the advancing nations. The most imperative measure taken in this respect by advancing nations was the opening of their separate stock markets to universal moguls. This step, taken in the late 1980s or early 1990s, brought about generally abnormal amount of portfolio investment in the rising markets1 by worldwide and local stores. Stock market liberalisation in numerous advancing nations occurred throughout the period 1985 to 1995 when market capitalization of all developing markets expanded by 1,007 percent contrasted with an increment of 253 percent on account of advanced markets. Therefore, the portion of developing markets on the planet market capitalization expanded from 4 percent in 1985 to 11 percent in 1995. So also, the exchanging worth in these markets expanded by 2,189 percent contrasted with 564 percent expansion for the advanced markets through the decade. Accordingly, the rising markets impart in exchanging volume expanded by more than three times, i.e., from 2.7 percent to 8.9 percent in ten years, signalling huge development in these markets (Husain what's more Qayyum, 2006). Foreign value investment might be useful to advancing nations as a result of its hazard offering attributes and consequences for asset assembly and portion. With money related reconciliation, advancing nations have come to be in every expanding degree magnetic objectives for universal moguls who are looking for a higher return than what is accessible in the advanced economies. Stock markets of advancing nations have come to be more, in spite of the fact that not completely, mixed with planet fiscal markets, and this expanded mix infers an easier danger balanced cost of capital, which is conceivable by enhancing the danger. The relationship between returns of rising markets (advancing markets) with advanced markets is easier than the return accessible in the advanced economies, the danger. Return profile of the portfolio might be enhanced. This has made the prospects of a more productive planet wide distribution of investment funds and investment than was conceivable prior, when domesticated investment in generally nations was obliged by domesticated investment funds. Along

these lines, huge budgetary speculators in the improved nations, while broadening their danger, gem improving nations a more alluring end of the line. He emphasised that India has either negative or extremely level of correspondence with improved nations. Hence opening up of Indian economy has carried finances from improved nations. In the wake of globalisation of monetary strategies, the Indian business situation is experiencing a tragic conversion. Investment chances have developed, financing choices have enlarged, or more all reliance on capital market has expanded.

REVIEW OF LITERATURE:

DeFond et al. (2011) report that firms' voluntary and mandatory adoption of the IFRS make them more appealing to foreign mutual funds. However, while it seems clear that foreign institutions have a preference for more comparable accounting; it is less clear that they play only the role of passive investors, waiting for companies to enact these policies before choosing to invest.

Armstrong et al. (2012) shows that board characteristics significantly affect a firm's financial reporting properties. This suggests that U.S. institutional investors can potentially change a local investee's accounting practice by affecting its choice of board members. Further, if U.S. institutional investors make efforts to appoint U.S. directors to the boards of their investees with the goal of intervening in their accounting practices, these efforts are likely to be most effective if the newly appointed board member(s) serves on the audit committee.

Douma, Pallathiatta and Kabir (2006) examined the effect of foreign institutional investment on the exhibition of rising market firms and discovered that there is certain impact of foreign proprietorship on firm exhibition. They likewise discovered effect of foreign investment on the business aggregation alliance of firms.

Gurucharan Singh (2004) highlighted that the securities market in India has come a long way in terms of infrastructure, adoption of best international practices and introduction of competition. Today, there is a need to review stock exchanges and improve the liquidity position of various scrips listed on them.

Kumar, S.s.s (2000), made an examination noticing the solidness of the foreign institutional speculators in India between January 1990 to March 1998 at Bse and discovered that the volatility as an exchange of Indian stock market before opening for FII's was 41.05 percent whereas the volatility in the wake of opening up was 22.66 percent. The study additionally checked the criticalness of the distinction in both periods by applying the F-test and deduced that volatility of the Indian stock market has decreased after the landing of FII's.

Chakrabarti (2001) has discerned an administration movement in the determinants of Fii taking after the Asian budgetary emergency. He utilized the information of Bse for a time of 6 years from May 1993 to Dec. 1999. By applying the Granger Causality Test on the information he discovered that in the preasian emergency period, any change in Fii had a positive effect on value returns, however it discovered an opposite relationship in post Asian emergency period. The study focuses out that the change in Fii is chiefly because of progress in value returns.

Khanna, Sushil (2002), discussed the impact of FII inflows on the Indian economy and concluded that there is no evidence that the entry of FII's have reduced the cost of capital to the Indian corporate sector nor have they helped the corporate sector to shift from their dependence on internal resources and funds from public sector development banks to the capital markets. The overall cost of the economy of increased short-term capital flows has been substantially higher than any current potential benefits.

Srivastva, Madhuri (2002), concluded that capital/technology intensive sectors are attracting significantly higher share of the total foreign investment as compared to labour intensive sectors such as food-processing industries, hotels, tourisms and textiles. The foreign investment does not have any considerable impact on the macro economy parameters of Indian economy.

Moel (2000), analyzed the effect of ADR listings from foreign markets on three aspects of development of local stock markets, viz., openness, liquidity and growth. His sample constituted firms from 28 emerging markets including India. He found that following ADR issues, there was an increase in transparency and a decline in liquidity & growth of the home equity market in terms of size and the number of new listings. He used accounting disclosure standards to proxy for openness of the market while liquidity was measured using the share turnover of the firms in the home market that do not list abroad. Finally growth of the home equity market was measured using the total market capitalization (using firms that do not list abroad) to gross domestic product (GDP) ratio. Mole's study indicated that listing of foreign ADRs have an adverse impact on the home market liquidity and growth measured in terms of total market capitalization.

Lakshmi Sharma (2005), framed a model by taking FII's investment as dependent variable and impact cost, market return and the ratio of non-promoters category of shareholders to total outstanding shares as independent variables and found that impact cost and the quantum of the shares available for trading in the market seem to be two important considerations for FII's for their investment purpose. But of the two significant variables, impact cost had emerged as the

most important variable explaining the FII's investment in a company.

Panda (2005), tried to examine the impact of FII's Investments on the Indian stock market by applying VAR analysis on the daily data from October 2003 to March 2004 and found Mutual Fund investments having better explanatory power than FII's investments in explaining returns on both of the main Indian markets BSE and NSE Nifty. The investigation found that FII's investments did not affect BSE Sensex rather it was affected by the later.

Stock Market Development: The secondary market is an important constituent of the capital market. Secondary market activities have strong influence on the performance of the primary market. This market provides facilities for trading in securities which have already been floated in the primary market. Thus an organised and well regulated secondary market (stock market) provides liquidity to shares, ensures safety and fair dealing in the selling and buying of securities. The financing decision of a firm is generally affected by the minimization of the weighted average cost of capital. Upward movement of stock prices influence firms to issue equities at a high premium which reduces the cost of capital for a firm and makes it an ideal financing choice. Another important impact of secondary market development over primary market activities is the increase in investment by firms. As the cost of equity reduces because of issue of equities at high premium, investment projects that had negative NPV before are likely to transform into positive NPV projects. Therefore, the performance of primary market is crucially dependent on the level of activities in the secondary market. This study considers a wide range of stock market development indicators. The indicators selected are size, liquidity, and volatility.

Market Size: In 1980, the stock market capitalization ratio was only 5% of GDP. As a result of liberalisation measures initiated in the 1980s, the ratio had risen to 13% by 1990. Market Capitalization ratio of Indian corporate sector after 1991 i.e., the year of liberalisation is given in the Table.

Above Table shows that stock market size as measured by Market Capitalization has grown by over 50 times throughout the period 1990-91 to 2006-07 while Gdp expanded by more than 7 times over the same period. Mcr has consistently expanded up to over 49% in 1995-96 and declined to around 25% in 2002-03 preceding spurting to over 94% in 2006-07. The development in size of Indian Stock Market looks like that of other advancing economies and is in reality exceptionally magnificent.

Table: 1 Market Capitalization Ratio of Indian Corporate Sector

Year	Market Capitalisation (Rs. Millions)	GDP (Rs. Millions)	Market Capitalisation Ratio (% GDP)	Market Capitalisation (% Change)
1990-91	7000	51503	13.59	_
1991-92	12314	58409	21.08	75.92
1992-93	18676	66987	27.88	51.66
1993-94	36807	78007	47.18	97.08
1994-95	43548	91216	47.74	18.31
1995-96	52648	106981	49.21	20.90
1996-97	46392	124763	37.18	-11.88
1997-98	56033	138873	40.35	20.78
1998-99	54536	160111	34.06	-2.67
1999-00	91284	177109	51.54	67.38
2000-01	57155	190228	30.05	-37.39
2001-02	61222	207766	29.47	7.12
2002-03	57220	224473	25.49	-6.54
2003-04	120121	251992	47.67	109.93
2004-05	169843	285533	59.48	41.39
2005-06	302219	324955	93.00	77.94
2006-07	354504	376029	94.28	17.30
Sub - Periods		**MCR**		
1990-07		44.07		
1990-97		34.84		
1997-02		37.09		
2002-07		63.98		

The enormous ascent in the exercises of the stock market, especially in the 1990s could be traced to a bigger support by people and institutional speculators in the capital market. Since September 1992, the foreign institutional gurus (Fii) have been permitted to put resources into the Indian capital market. The critical effect of liberalization is clear in the degree of market promotion to Gdp which was beneath 10% until three years before liberalization, expanded to 21% in the year of liberalization, stayed around 40% up to 2003-04 preceding expanding to 94% in 2006-07. Toward the conclusion of year 2008 market underwriting has crossed the National Gdp by more than 100%.

Stock Market Liquidity: The Turnover of Indian stock market as a percentage of GDP is given in the following Table.

Table: 2 Value Traded Ratio of Indian Stock Market

Year	Turnover (Rs. Millions)	GDP (Rs. Millions)	Value Traded Ratio (% GDP)	Value Traded (% Change)
1990-91	3601	51503	6.99	–
1991-92	7178	58409	12.29	99.32
1992-93	4570	66987	6.82	-36.34
1993-94	8454	78007	10.84	85.00
1994-95	6775	91216	7.43	-19.86
1995-96	5006	106981	4.68	-26.11
1996-97	12428	124763	9.96	148.26
1997-98	20764	138873	14.95	67.07
1998-99	31200	160111	19.49	50.26
1999-00	68503	177109	38.68	119.56
2000-01	100003	190228	52.57	45.98
2001-02	30729	207766	14.79	-69.27
2002-03	31407	224473	13.99	2.21
2003-04	50262	251992	19.95	60.03
2004-05	51872	285533	18.17	3.20
2005-06	81607	324955	25.11	57.33
2006-07	95619	376029	25.43	17.17

Sub-Periods	Value Traded Ratio
1990-07	17.77
1990-97	8.43
1997-02	28.10
2002-07	20.53

The above Table shows that worth exchanged as a rate of Gdp expanded from in the ballpark of 7 percent of Gdp in 1990-91 to about 25 percent of Gdp in 2006-07. In outright terms Turnover in the market builds more than 25 times from 1991 to 2007. Throughout 2000-2001 there were most extreme exercises in the market and the quality exchanged proportion was 52.57%. The normal quality of Value Traded Ratio throughout the study period is 17.77%. At first it was exceptionally flat after liberalisation throughout the first stage at 8.43% which shows next to no exchanging the market as contrasted with economy estimate. Throughout second sub-period when the second stage of changes began, the market has hinted at recovery and it has expanded to 28.10%. In the final period, again this proportion descends to 20.53% on a much higher Gdp throughout which time the turnover expanded by more than 90% beating numerous rising markets.

To decidedly comprehend the liquidity picture, the turnover proportion likewise has been examined. The turnover degree is demarcated as the proportion of the quality of aggregate imparts exchanged and market promotion. It measures the movement of the stock market in respect to its size. Numerous experts utilize the turnover as measure of transaction costs. High turnover degree suggests level transaction and subsequently high proficiency.

Table: 3 Turnover Ratio of Indian Stock Market

Year	Turnover (Rs. Millions)	Market Capitalisation (Rs. Millions)	Turnover Ratio (%)
1990-91	3601	7000	51.44
1991-92	7178	12314	58.29
1992-93	4570	18676	24.47
1993-94	8454	36807	22.97
1994-95	6775	43548	15.56
1995-96	5006	52648	9.51
1996-97	12428	46392	26.79
1997-98	20764	56033	37.06
1998-99	31200	54536	57.21
1999-00	68503	91284	75.04
2000-01	100003	57155	174.97
2001-02	30729	61222	50.19
2002-03	31407	57220	54.89
2003-04	50262	120121	41.84
2004-05	51872	169843	30.54
2005-06	81607	302219	27.00
2006-07	95619	354504	26.97

Sub-Periods	Turnover Ratio
1990-07	46.16
1990-97	29.86
1997-02	78.89
2002-07	36.25

The turnover degree diminished from 51.44 percent in 1990-91 to something like 27 percent in 2006-07. The mean quality of the proportion over the entire period is 46.16. Throughout first time of investigation, this proportion was around 30% just then after that it expanded to78.9 % in the resulting period and again it declined to 36.25%. The excuse for why could be security market trick due to which the suppositions of the gurus influenced conflictingly. After 1995 market liquidity began climbing once more. The Sebi has taken different administrative strategies and drives to direct the market. The liquidity again gets influenced adversely in year 2001-02 in light of the fact that market was hit by an additional set of irregularities in the stock market.

Stock Market Volatility: In this segment, the volatility of the Indian stock market throughout 1991-2007 has been broke down. It is examined if there has been an expansion in volatility in the Indian stock market because of the methodology of monetary liberalisation. Stock market liberalization has pulled in another assembly of guru's viz. the FII's. An expansion in the amount of traders in the market may then decrease the stock cost fluctuation. Stock market opening may additionally concurrently trigger an expansion in the change of informative data sets accessible to the FII's in this way inferring a conceivability of an increment in the stock return volatility. The accompanying table shows the Volatility Ratio of the Indian corporate part. Examination of stock list volatility uncovers that the period around 1991 is the most volatile period in the stock market because of the Balance of Payment emergency and the resulting start of budgetary changes in India. Throughout 1991-92 the worth of volatility proportion is as high as 8.05 although Mean standard deviation of the study period is 3.63. In the beginning sub-time of liberalisation i.e., 1991-97 the proportion is at 3.97 due to the advertisement of first stage of changes. It demonstrates an unwavering succumb to second and third sub-periods to 3.80 and 2.96 separately. There has been a checked fall of around 25% between the

volatility levels over the first and third sub-times of the study. The second most noteworthy volatile year was 1999-00 when the degree was 4.82. Throughout the study period the volatility of the Indian stock market has not demonstrated any critical example on a year-to-year premise despite the fact that it has ceaselessly diminished over the three sub periods.

Table: 4 Yearly Volatility Ratio of Indian Stock Market

Year	Volatility Ratio (%)
1990-91	3.75
1991-92	8.05
1992-93	3.86
1993-94	3.30
1994-95	2.13
1995-96	3.46
1996-97	3.26
1997-98	3.75
1998-99	3.72
1999-00	4.82
2000-01	4.31
2001-02	2.43
2002-03	3.36
2003-04	3.17
2004-05	2.75
2005-06	2.74
2006-07	2.81
Year	**Volatility Ratio**
1990-07	3.63
1990-97	3.97
1997-02	3.80
2002-07	2.96

As respects the level of volatility, mean volatility in the post liberalization period shows a transitory build emulated by a reduction on a yearly premise in cycles in spite of the fact that the change as a rule is minor. This was because of the increment in the Fii movement in the Indian stock market throughout the period. Investigation additionally demonstrates that stock market cycles in India have not escalated after monetary liberalization. A summed up lessening in flimsiness in the post change period in India has been watched.

CONCLUSION:

This study has found significant improvement in the economy after liberalisation. All indicators, show improvement in stock market activities in the post liberalisation period. Market capitalization ratio, value traded ratio, and turnover ratio have increased. These indicators together with decline in volatility are an evidence of stock market development in India. Infrastructure improvements in the stock market like the introduction of screen based on-line trading system, setting up of National Securities Clearing Corporation (NSCC) in 1996, the setting up of depositories in India and the introduction of trading in financial derivatives in 1999 may have contributed to the improvement in the stock markets. Analysis reveals that liberalization of the stock market or the FII entry in particular does not have any direct implications for the stock return volatility. However, it had affected the size and liquidity of the stock market. The primary Indian capital market has grown significantly since the beginning of capital market reforms. The secondary capital market is also found to have grown in terms of its size and liquidity. Volatility in stock prices is found to have declined annually. Ratio which is showing very high degree of positive relationship and significant also. From above it is clear that size of the market and its volatility are negatively correlated to some extent. As the size of the market increases, the volatility reduces in the market. Size and liquidity of the market are positively related but degree of relationship is very poor. Liquidity and volatility are showing less degree of association but positively related in Indian stock market.

REFERENCES:

Armstrong, C.S., Core, J.E., Guay, W.R. (2012). When Do Independent Directors Improve Firms' Information Environments? Unpublished Manuscript

Bhaduri, S. (2000). Liberalization and Firm.s Choice of Financial Structure in an Emerging Economy: The Indian Corporate Sector, Development Policy Review, Vol. 18, pp. 413-434.

Chakrabarti, Rajesh (2001). “FII Flows to India: Nature and Causes”, Money and Finance ICRA Bulletin 2, No. 7.

Gurucharan Singh, (2004). “Illiquidity in Stock Exchanges: Some Issues”, The Indian Journal of Commerce, Vol. 57, No. 4, pp. 71-83.

Husain, F. and Qayyum, A. (2006). Stock Market Liberalizations in the South Asian Region, PIDE Working Paper No. 06.

Kumar, S. S. (2002). “Indian stock market in international diversification: An FII’s perspective” Indian Journal of Economics, Vol, lxxxii, No-327, April, pages pp. 85-102.

Corresponding Author

Prashant J. Shaha*

Ph.D. Research Student, MUIT, Lucknow

E-Mail – shaha_prashant12@yahoo.com