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“Twenty-First Century: Cultural and Economic Globalization”

Impact of Globalization on Indian Stock Market

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Abstract

In the era of globalization, stock markets vastly expand the scope and complexity of their activities and are facing a constantly changing and rapidly complex regulatory environment. The stock market is one of the most important indicators in the field of an economy. This paper aims to highlight the impact of globalization on the Indian stock market. The stock market is one of the most popular platforms in the world of trading and investments without any barriers. Daily crores of traders and investors trade directly or indirectly in various stock exchanges. All such trades are processed through an entity known as a stock exchange. There are many stock exchanges in India that trade crores every working day. This paper explores how globalization also contributes to the development of Indian Stock Markets.

Keywords: NSE, BSE, FII, DEMAT Accounts, Market Capitalisation, FII Inflow and Outflow

Introduction

Stock markets are one of the most popular platforms for entering the world of trading and investments. Daily crores of traders and investors trade in different share markets directly or indirectly. National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are two important and the largest exchanges in India. Bombay Stock Exchange is the oldest exchange in India and Asia established in 1875.

The stock exchange plays a crucial role in the consolidation of an economy and also helps in the development of the industrial sector, service sector and other sectors. It is said about Indians that we are very good at saving generators but very poor in capital formations and investments. Stock exchanges play a very crucial role in mobilisation savings and then investing which creates capital formation.

The purpose of this research paper is to examine the impact of globalisation on the Indian stock market. Due to globalisation impact, India implements many reforms to do faster development stock market. These reforms were brought in with the objective of increasing market efficiency, transparency and preventing wrong trade practices.

Objectives of the Study

- To know the foreign investment inflow in Indian stock markets.
- To know the relationship of market capitalisation with GDP
- To know liquidity and volatility condition of Indian Stock Markets.
- To know the relationships of the selected stock market of India and the world.

Data Analysis and Research Methodology

The data collected for the analysis of Indian Stock Market development after liberalisation particularly after the year 2000 from the websites of SEBI, BSE, NSE, Money Control.com, RBI reports etc.

Review of Literature

The existing research regarding the impact of globalization on the Indian Stock Market provides conflicting results. The reason for varying results may be used the different data like daily, weekly, monthly and yearly and difference in methodology used. Syri poulos (1996) and Chaudhari (1997) study the equity markets of

central Europe and Latin America. They concluded the presence of long-run co-movement among stock markets. Francis and Henschmen (1998) and Cheung (2000) conclude the significant impact of the U.S.A. Stock Markets over rest of World Stock Markets. Diamdndis (2009) concluded partial integration U.S.A. Stock Market and Latin American Countries Stock Markets.

Table 1.1: Foreign Institutional Investment (FII) Inflows & Outflows in India Stock Market

| Years | Amount (in Crores) |
|-------------|--------------------|
| 2001 - 2002 | 12609 |
| 2007 - 2008 | 109741 |
| 2016 - 2017 | 48411 |
| 2017 - 2018 | 144682 |
| 2018 - 2019 | (38930) |
| 2019 - 2020 | (27528) |
| 2020 - 2021 | 267101 |

Sources - BSE Websites

Table 1.2: Average Annual Share Price Index (BSE Sensex)

| Year | Index | % change | Trend Analysis |
|-------------|--------|----------|----------------|
| 2001 - 2002 | 3331 | - | 100 |
| 2008 - 2009 | 12366 | 271.2% | 371.20 |
| 2015 - 2016 | 26626 | 115.3% | 799.30 |
| 2016 - 2017 | 34056 | 27.9% | 1024.40 |
| 2017 - 2018 | 36068 | 5.9% | 1082.80 |
| 2018 - 2019 | 42253 | 17.2% | 1268.40 |
| 2019 - 2020 | 47751 | 13.02% | 1433.50 |
| 2020 - 2021 | 487321 | 2.05% | 1462.90 |

Sources - BSE Websites

Table 1.3: India Vix (Volatility Index) of Stock Market

| | | | | | | | | |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| July 2019 | Aug. 2019 | Nov. 2019 | Dec. 2019 | Jan. 2020 | Feb. 2020 | Mar. 2020 | Apr. 2020 | May. 2020 |
| 13.59 | 16.29 | 13.90 | 11.70 | 17.40 | 23.20 | 64.40 | 33.90 | 30.20 |
| Jun. 2020 | July 2019 | Oct. 2019 | Nov. 2019 | Dec. 2019 | Jan. 2020 | Feb. 2020 | Mar. 2020 | |
| 29.10 | 24.20 | 24.70 | 19.80 | 21.10 | 25.30 | 28.10 | 20.60 | |
| July 2019 | Aug. 2019 | Nov. 2019 | Dec. 2019 | Jan. 2020 | Feb. 2020 | Mar. 2020 | Apr. 2020 | May. 2020 |
| 13.59 | 16.29 | 13.90 | 11.70 | 17.40 | 23.20 | 64.40 | 33.90 | 30.20 |
| Jun. 2020 | July 2019 | Oct. 2019 | Nov. 2019 | Dec. 2019 | Jan. 2020 | Feb. 2020 | Mar. 2020 | |
| 29.10 | 24.20 | 24.70 | 19.80 | 21.10 | 25.30 | 28.10 | 20.60 | |

Sources - BSE Websites

Table 1.4: Issuance of A.D.Rs and G.D.Rs

| Years | Amount (in Crores) |
|-------------|--------------------|
| 2001 - 2002 | 477 |
| 2006 - 2007 | 3776 |
| 2008 - 2009 | 1162 |
| 2015 - 2016 | 1271 |
| 2016 - 2017 | 373 |

Source - SEBI Websites

Table 1.5: Market Capitalisation at BSE

| Year | Amt. (in Crores) | % change | Trend Analysis |
|-------------|------------------|----------|----------------|
| 2011 - 2012 | 52,72,026 | - | 100 |
| 2015 - 2016 | 82,21,593 | 55.90% | 155.9 |
| 2016 - 2017 | 1,01,76,618 | 23.80% | 193.1 |
| 2017 - 2018 | 1,19,84,561 | 17.80% | 227.3 |
| 2018 - 2019 | 1,40,02,664 | 16.80% | 265.6 |
| 2019 - 2020 | 1,04,55,526 | (25.30%) | 198.3 |
| 2020 - 2021 | 1,95,25,554 | 86.70% | 370.4 |

Source - Websites of SEBI, BSE, NSE etc.

Table 1.6: Market Cap and GDP Ratio

| Years | G.D.P % |
|-------|---------|
| 2003 | 45.9% |
| 2007 | 149.5% |
| 2018 | 76.8% |
| 2019 | 76.0% |
| 2020 | 96.1% |

Table 1.7: GDP Ratio of Different Countries as on 2020

| Countries | G.D.P. % |
|-----------|---------------|
| Argentina | 34.9% |
| U.K. | 102.1% |
| Brazil | 69.1% |
| Canada | 154.2% |
| Japan | 128.7% |
| USA | 147.9% (2018) |
| China | 59.6% (2019) |
| India | 96.1% |

Sources - BSE Websites

- At present more than 2000 key findings are available in around 70 countries of the world. ADR stands for American depositary receipts which are issued by a United States of America depositary bank against a certain number of shares of non-U.S.A. shares/stock. GDR stands for Global depositary receipts issues by other countries depositary banks in the world. Many top companies of India such as ICICI Bank Ltd., HDFC Bank Ltd., L&T Ltd., M&M Ltd, SBI etc. It is hoped due to globalization only.
- At present around 300 share brokers are working in Indian Stock Markets. They covered almost all parts of the country.
- India is one of the top countries in which the fastest growth of DEMAT Accounts (account used for keeping and investing shares and securities) is experiencing. In 2018-19 India has 3.59 crore such accounts which increased to 4.08 crores in 2019-20 and further increased up to 5.15 crores till January 2021. It shows improvement in investing habits of Indians as in developed countries.
- Indian stock market is now truly helping to mobilize savings, promoting capital formation, increasing the liquidity of investment, increasing the marketability of securities and acting as a barometer of the national economy.
- Initially, they were so many problems an Indian Stock Market such as frauds, insider trading, price speculation (up and down) of certain share by operators etc. but now due to globalisation and own experience Indian government established Security Exchange Board of India (SEBI) and provided it legal status as well as Investor Protection Fund (IPF) set up to compensate share market investors in case of frauds and malpractices.
- Indian stock markets are playing an important role in the economic growth of the country as a liquid financial market is a key factor behind most of the early innovations that lead to the industrial revolution.
- Over the years, the Indian Stock Market has now become the strong number of stock exchange increased from 8 in 1971 to 9 in 1981, 23 at present but active exchanges are 8 only. The numbers of listed Sensex are

moved up from 1599 to 2265 from 1971 to 1980 and 5968 in 1990 and around 10000 at present.

- It is clear on the basis of table 1.5 that the market capitalisation of the Indian Stock Market increasing day by day. At present India is the 7th biggest market with a \$ 2.7 million market capitalisation.
- Foreign institutional investors investing heavily in the Indian Stock Market as shown in table 1.1. It means they have full confidence in the Indian growth industry.
- It can be concluded on the basis of table 1.2 that investors are earning from the Indian stock market hugely. Sensex rose 3331 to 48732 from 2001-2002 to 2020-2021.
- It can be concluded by table 1.3 that the Indian market is very much volatile in nature as shown by India Vix through globalisation is also a key factor in volatility.
- On the basis of tables 1.6 and 1.7 it can be calculated that the Indian Stock Market is fairly valued as a value above 100% (Market cap. of GDP) mean the market is overvalued and close to 50% is treated undervalued.

Conclusion

Results of the study show that globalisation also contributed to the development of Indian Stock Markets. This study finds a significant improvement and the changes in the Indian Stock Market due to globalisation. Market capitalisation, Ratio of Market cap to Gross Domestic Product (GDP) receipts of inflow from ADRs/GDPs, volatility, foreign institutional investors participation has increased in the Indian stock market due to globalisation size of stock markets, member of brokers also increased.

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