The Indian Capital Market

The capital market consists of primary and secondary markets. The primary market deals with the issue of new instruments by the corporate sector such as equity shares, preference shares and debt instruments. Central and State governments, various public sector industrial units (PSUs), statutory and other authorities such as state electricity boards and port trusts also issue bonds/debt instruments.

The primary market in which public issue of securities is made through a prospectus is a retail market and there is no physical location. Offer for subscription to securities is made to investing community. The secondary market or stock exchange is a market for trading and settlement of securities that have already been issued. The investors holding securities sell securities through registered brokers/sub-brokers of the stock exchange. Investors who are desirous of buying securities purchase securities through registered brokers/sub-brokers of the stock exchange. It may have a physical location like a stock exchange or a trading floor.

Even before the crisis of 1991, there had been a demand from domestic financial institutions (DFIs) to reform Indian equity markets. Liquidity on the exchanges lacked the depth the DFIs needed to execute large transactions. They also faced problems with brokers front-running against their orders, or the lack of resilience of liquidity once it was known that the DFIs had placed orders in the market.
Indian Capital Market in Pre-Liberalised Era

The equity market was high on the reforms agenda after the Scam of 1992. The problems of the equity market, at the time, may be summarised as follows:

1. As of 1992, the Bombay Stock Exchange (BSE) was a monopoly. It was an association of brokers, and imposed entry barriers, which led to elevated costs of intermediation. Membership was limited to individuals; limited liability firms could not become brokerage firms.

2. Trading took place by ‘open outcry’ on the trading floor, which was inaccessible to users. It was routine for brokers to charge the investor a price that was different from that actually transacted at. In fact, the normal market practice involved brokers charging users’ one single consolidated price, instead of unbundling the trade price and the brokerage fee.

3. As with all trading floors, there was no price–time priority, so users of the market were not assured that a trade was executed at the best possible price.

4. A variety of manipulative practices abounded, so that external users of a market often found themselves at the losing end of price movements. The BSE is run by brokers, which limits the quality of enforcement which can be undertaken against errant brokers.

5. Floor-based trading, the inefficiencies in clearing and settlement (described ahead), entry barriers into brokerage, and the low standards of technology and organisational complexity that accompanied the ban
upon corporate membership of the BSE led to an environment where order execution was unreliable and costly. It was typical for below 50% of orders to obtain execution on a given day.

6. Retail investors and particularly users of the market outside Bombay, accessed market liquidity through a chain of intermediaries called "sub-brokers". Each sub-broker in the chain introduced a mark-up in the price, in the absence of the unbundling of professional fees from the trade price. It was not uncommon for investors in small towns to face four intermediaries before their order reached the BSE floor, and to face mark-ups in excess of 10% as compared with the actual trade price.

7. The market used ‘futures–style settlement’ with fortnightly settlement. This means that trading was supposed to take place for a fortnight until a predetermined ‘expiration date’. Open positions on the expiration date only would go into actual settlement, where funds and securities were exchanged. In practice, there was little discipline on ensuring a reliable fortnightly settlement cycle.

8. A peculiar market practice called badla allowed brokers to carry positions across settlement periods. In other words, even open positions at the end of the fortnight did not always have to be settled.

9. The efficiencies of the exchange clearinghouse only applied for the largest 100 stocks. For other stocks, clearing and settlement were done bilaterally, which introduced further inefficiencies and costs.

10. The use of futures–style trading for a fortnight (or more), coupled with badla, is fraught with counterparty risk. Normally, collateral (margin)
requirements are used to ensure capital adequacy, and reduce the fragility of the clearing system. Primitive notions of margins existed at the BSE on paper, but they were not enforced. A critical feature of the modern approach to clearing is “novation” at a clearing corporation; the BSE has neither a clearing corporation nor novation. The BSE clearinghouse functioned on a best-efforts basis – if shares or funds appeared at one end, they would be delivered to the other; the clearinghouse itself took no interest in measuring and containing counterparty risk. Small-scale problems of partial or delayed payments took place on every settlement, and major crises, which required closing down the exchange while a compromise was worked out, took place once every two to three years. A recent and prominent example was seen in April 1995 in the context of shares of the firm ‘M. S. Shoes’, where a default involving a total exposure of Rs.180 million, and losses of around one-fifth of this, led to a payments crisis on the BSE which halted the functioning of the exchange for three days.

11. The final leg of the trade was physical settlement, where share certificates were printed on paper. This was intrinsically vulnerable to theft, counterfeiting, inaccurate signature verification, administrative inefficiencies, and a variety of other malpractice. Involuntary and deliberate delays in settlement could take place both at the BSE and at the firm.

These problems led to an extremely poorly functioning equity market. From late 1993 onwards, the Indian State embarked on a radical reforms program which completely transformed market institutions (Shah & Thomas
1997). This program consisted of creating four new securities market institutions: the Securities and Exchanges Board of India (SEBI), the National Stock Exchange (NSE), the National Securities Clearing Corporation (NSCC) and the National Securities Depository (NSDL).

Capital Market Reforms

India’s economic growth has been robust with an average GDP growth rate of over 5.5% p.a. for the last 20 years. However, despite several policy reforms the Indian stock market has gone nowhere since March, 1992. It is noteworthy that this excellent growth record has been achieved in the presence of very high and rising, real interest rates. The effect of economic reforms on the stock market has been nullified by these increasing, and high, real interest rates. Hence, the Indian stock market has gone nowhere since March, 1992. Given that growth has been accompanied by wide ranging reforms covering external, fiscal and financial sector, it would be logical to assume that the financial markets performance would have fully discounted the reform story in India by way of higher valuations.

A no. of developments have taken place in the Indian capital market with the launching of financial reforms since July 1991. In the process capital market is being rebuilt some of the important developments that have taken place in the Indian market are as below.
From July 1991 to 1995-96

1. Setting up of securities and exchange board of India (SEBI) with autonomous power 'as a regulatory authority over various constituents of the capital market.

2. Launching of over the counter exchange of India (OTCEI) a second-tier bourse permitting smaller companies to raise funds.

3. CCI abolished and free pricing introduced.

4. Insider trading made an offence.

5. New Industrial Policy and a packaging of measures to boost industrial investment announced by the government.


7. New guidelines issued for preferential offers, right and bonus shares.

8. Minimum subscription for public issue has been raised.

9. Proportionate allotment of shares for all public issue cleared by SEBI after January 1, 1994 has been made mandatory.

10. Capital adequacy norms for brokers announced: For brokers belonging to BSE and CSE minimum deposit required is Rs. 5 lakhs etc; for remaining stock exchanges Rs. 2 lakhs each.

11. Rules relating to portfolio managers and mutual funds launched schemes to mobilize funds for investment.


13. Foreign Institutional Investors (FIIs) registered by SEBI and private placement of issue with (FIIs).
14. National Stock Exchange (NSE) began on line scrip less trading in India.

15. Abolition of licensing system.

16. Promoter required subscribing to at least 25 percent of equity in the class of instruments when more than one instruments is offered to the public.

17. Indian companies have been permitted to float Global Depository Receipts, Euro Equity Issue, and Floating Rates of Interest Notes in various foreign countries.

18. Clearance for foreign institutions and banks for their capital issues has been made mandatory.

19. Full convertibility of Rupee on trade as well as on current account announced.

20. Forward trading are banned and a new trading system called the ‘twine-track’ system was introduced.

21. Foreign equity investments of Multi-National Corporation (MNCs) increased to 51 percent of equity capital in their subsidiary companies in India.

(B) Capital Market Reform form April 1996 to march 2002

The process of capital market reforms was carried forward during 1996-2002. A number of reforms, both in the primary as well as secondary markets for equity, debt and foreign institutional investment were made. The following are some of the important reforms made during this period:
1. The depositaries act 1996 was enacted in July 1996 and SEBI (depositories and participants) regulations, 1996 notified.

2. To provide greater flexibility, SEBI gave up vetting of public issue documents.

3. To encourage the development of debt market, debt issues not accompanied by an equity component permitted to be sold entirely by the book building process subject to section 19(2) (b) of the securities contracts (regulations) Rules.

4. Stock exchanges asked to modify the listing agreement to provide for the payment of interest by companies to investors from the 30th day after the closure of a public issue.

(C) Capital Market Reform form April 2002

1. RBI introduced Real Time Gross Settlement system (RTGS) in 2004.

2. Mutual Funds have been allowed, vide notification dated 12th January, 2006, to float Gold Exchange Traded Fund schemes which have been permitted to invest primarily in Gold and Gold related instruments, which have been defined as such instruments having gold as underlying, as are specified by SEBI from time to time.


4. Delisting Framework: The Securities Laws (Amendment) Act, 2004 amended the SCRA to provide that a stock exchange may delist
securities, after recording reasons therefor, on any of the grounds as may be prescribed in the rules. – Rules are proposed to be amended.

5. **Short selling** - by Institutions- settled by delivery and securities lending and borrowing to facilitate delivery, by institutions announced in 2007-08 budget- implementation under consideration of the Government in consultation with RBI and SEBI.

6. **Pan Mandatory**: Budget announcement of 2007-08 PAN the sole identification number for all participants in the securities market - SEBI issued the necessary circular and the same came into force with effect from 2nd July, 2007.

7. **Foreign Investment in securities markets** Infrastructure Companies Foreign Investment up to 49% has been allowed in infrastructure companies in the securities markets, viz. stock exchanges, depositories and clearing corporations, with separate Foreign Direct Investment (FDI) cap of 26% and Foreign Institutional Investment (FII) cap of 23%.

8. **ADR/GDR/FCCB-Foreign Capital Mobilisation** 1992-93 - allowed the Indian corporate sector to have access to global capital markets through issue of Foreign Currency Convertible Bonds (FCCBs)/Equity Shares under the Global Depository Mechanism.

   June, 2006- Government permitted unlisted companies to sponsor an issue of ADRs / GDRs.

   May 2007 – A Committee has been set up by Government to review the entire ADR/GDR policy with a view to streamlining FCCB/ADR/GDR
procedures to enable Indian companies to have greater and smoother access
to international capital markets.

**The Securities and Exchange Board of India (SEBI)**

The Securities and Exchange Board of India (SEBI) was constituted on
12 April 1988 as a non-statutory body through an Administrative Resolution
of the Government for dealing with all matters relating to development and
regulation of the securities market and investor protection and to advise the
government on all these matters. SEBI was given statutory status and powers
through an Ordinance promulgated on January 30 1992.

Since 1995, trading in securities is screen-based and Internet-based
trading has also made an appearance in India. The secondary market
consists of 23 stock exchanges including the National Stock Exchange, Over-
the-Counter Exchange of India (OTCEI) and Inter Connected Stock Exchange
of India Ltd. The secondary market provides a trading place for the securities
already issued, to be bought and sold. It also provides liquidity to the initial
buyers in the primary market to reoffer the securities to any interested buyer
at any price, if mutually accepted. An active secondary market actually
promotes the growth of the primary market and capital formation because
investors in the primary market are assured of a continuous market and they
can liquidate their investments.

**Over the Counter Exchange of India**

These problems in secondary market liquidity led to a first attempt to
innovate on a design for the equity markets. This attempt was made by the
DFIs and became the Over the Counter Exchange of India, Ltd. (OTCEI). OTCEI was inspired by the NASDAQ system of using multiple, competing market makers. This exchange started as a national market that was limited to trading shares that had very low liquidity on the existing exchanges. OTCEI was unable to create a liquid market and was ultimately considered a failure in financial institution building.

National Stock Exchange

The National Stock Exchange was set up in 1992 as a first step in reforming the securities market through improved technology and introduction of best practices in management. It started with the concept of an independent governing body without any broker representation thus ensuring that the operators' interests were not allowed to dominate the governance of the exchange. There were two guiding principles that drove the design of the new exchange: first, that the price discovery process should be as transparent as possible; second, the exchange should support competition - there should be equal access for all equity market participants.

Depository System

The erstwhile settlement system on Indian stock exchanges was also inefficient and increased risk, due to the time that elapsed before trades were settled. The transfer was by physical movement of papers. There had to be a physical delivery of securities - a process fraught with delays and resultant risks. The second aspect of the settlement related to transfer of shares in favour of the purchaser by the company. The system of transfer of ownership
was grossly inefficient as every transfer involves physical movement of paper securities to the issuer for registration, with the change of ownership being evidenced by an endorsement on the security certificate. In many cases the process of transfer would take much longer than the two months stipulated in the Companies Act, and a significant proportion of transactions would end up as bad delivery due to faulty compliance of paper work. Theft, forgery, mutilation of certificates and other irregularities were rampant. In addition, the issuer had the right to refuse the transfer of a security. All this added to costs and delays in settlement, restricted liquidity and made investor grievance redress time consuming and, at times, intractable. To obviate these problems, the Depositories Act, 1996 was passed. It provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security.

Introduction of Derivatives

To assist market participants to manage risks better through hedging, speculation and arbitrage, SC(R) A was amended in 1995 to lift the ban on options in securities. However, trading in derivatives did not take off, as there was no suitable legal and regulatory framework to govern these trades.

The turnover of the spot and derivatives market of NSE and BSE, continued to show an upward trend. During 2007, NSE and BSE spot market turnover showed a rise of over 60 per cent and 47 per cent, respectively, over the previous year. In respect of NSE and BSE derivatives, the increase was around 70 per cent and 200 percent, respectively. The spot market turnover (one-way) for NSE and BSE (together) amounted to Rs. 45,08,709 crore. In
the derivatives market, the NSE and BSE turnover added up to Rs. 1,21,60,701 crore during 2007, showing a quantum growth over the previous year. During 2007, as a proportion of market capitalization of Nifty, the turnover in NSE spot and derivative markets were 87.8 per cent and 339 per cent, respectively. The turnover in BSE spot and derivatives accounted for 22 per cent and 3 per cent, respectively, of market capitalization of BSE 500.

**Stress on professionalism**

A critical element of financial sector reforms is the development of a pool of human resources having the skills and expertise to provide quality intermediation services in each segment of the industry. In order to dispense quality intermediation, personnel working in the industry need to (a) follow certain code of conduct usually achieved through regulations and (b) possess requisite skills and knowledge generally acquired through a system of testing and certification. It is necessary that they have a proper understanding of the business and skills to help it remain competitive. Such testing and certification has assumed added significance in India as there is no formal education/training on financial markets, especially in the area of market operations which have undergone a complete transformation in the recent years. Taking into account international experience and needs of the financial markets, NSE launched NCFM (NSE’s Certification in Financial Markets). It tests practical knowledge and skills that are required to operate in financial markets, in a very secure and unbiased manner, and certifies personnel with a view to improve quality of intermediation. This has gained market acceptability, as there is a realisation that the financial markets are soon going to be the turf of
certified professionals due to regulatory compulsions and/or initiatives of the industry. By imparting comprehensive knowledge and skill in the chosen field, NCFM enhances career opportunities for NCFM certified persons and allows market participants and intermediaries to build their own staff development strategies tailored to their specific needs.

**Internet Broking**

With the Internet becoming ubiquitous, many institutions have set up securities trading agencies that provide online trading facilities to their clients from their homes. This has been possible since all the players in the securities market, viz., stockbrokers, stock exchanges, clearing corporations, depositories, DPs, clearing banks, etc., are linked electronically.

**Capital Market Reforms in India**

India’s capital market has come a long way since economic reforms began in early 1990s. The size of India’s equity market equals its GDP - similar to G7 countries. Transaction costs have come down considerably and now are less than the average in developed markets. State-of-the-art market infrastructure combined with increasing profitability and competitiveness of Indian companies has attracted significant foreign portfolio investment. The Securities and Exchange Board of India is now widely perceived as a robust institution, a role model for regulators in emerging markets.

Indian Capital Markets have grown exponentially in the last few years. The growth has been in every sphere, in the amount of capital raised through primary issuances, in exchange trading turnovers, in the market indices and
market capitalization, in mutual fund assets and foreign institutional investment. Corporate earnings are growing at healthy pace and the markets are a reflection of the health of the Indian economy.

The Indian capital market attained further depth and width in business transacted during 2007. The Bombay Stock Exchange (BSE) Sensex, which had been witnessing an upswing since the latter part of 2003, scaled a high of 20,000 marks at the close of calendar year 2007 and 21000 in January 2008. The National Stock Exchange (NSE) Index rose in tandem to close above the 6,100 mark at the end of 2007. Both the indices more than tripled between 2003 and 2007, giving handsome yearly returns. Alongside the growth of business in the Indian capital market, the regulatory and oversight norms have improved over the years, ensuring a sound and stable market.

SEBI’s objective has been to encourage the development of the market while protecting the interests of investors. The task is however only partly done. Rapidly expanding markets require the industry and regulators to continually shore up their skills and resources. The establishment of the National Institute of Securities Markets is an effort to develop securities market skills and knowledge across the board for investors, students, market intermediaries and professionals and regulators.

The market has been transformed in the 16 years since SEBI emerged as the statutory regulator of India’s securities market. India’s market in 2007 features a developed regulatory environment, a modern market infrastructure, a steadily increasing market capitalization and liquidity, better allocation and
mobilization of resources, a rapidly developing derivatives market, a robust mutual fund industry, and increased issuer transparency.

**Foreign Institutional Investors**

The changes in market structure, regulation and technology brought about significant qualitative changes in the Indian securities market, greatly reduced systemic and settlement risks, and helped create more transparent, liquid and efficient securities markets. Increasing confidence in the fairness and efficiency of the market, and the elimination of barriers to foreign institutional investment in 1994, fueled the growth of foreign portfolio investment. Portfolio Investment by Foreign Institutional Investors (FIIs) in India has grown every year since then, except for 1998, when the Asian crisis led to a major exodus across all markets. Despite several factors indicating a relative slowdown in the emerging markets, foreign institutional investors (FIIs) continue to be bullish on India. They have pumped in a hefty $6 billion in equities to date in calendar 2007.

**Mutual Fund Industry**

The mutual fund industry, like the market, has expanded at an accelerating rate over the period 1992-2007. In 1993, private sector players, including international asset managers were permitted to set up mutual funds. Assets Under Management (AUM) grew nearly ten-fold from Rs.43,000 crore (US$ 14 billion) in June 1993 to Rs.400,842 crores (nearly US$ 100 billion) on June 30, 2007. The number of mutual fund schemes went up from less than 100 to 772 over the same period. The Association of Mutual Funds in India
(AMFI) has played an important role in the industry’s growth. This fund trade association, comprised of 32 asset management companies, helps develop and maintain high professional and ethical standards in mutual fund operations. AMFI’s guidelines have set industry standards and more recently it has established a program for training, testing, and certifying all mutual fund intermediaries. SEBI later made this program mandatory for intermediaries.

**Indian Capital Market Vs. Global Capital Markets**

In a relatively short period of 17 years, India’s capital market has transformed into one of the most active and modern around the globe. This report begins by describing that transformation in Chapter 1, highlighting five major achievements that have helped to propel the stunning changes in India’s market from early 1992 through mid-2007:

- Building an appropriate and responsive regulatory environment
- Leveraging technology to develop state-of-the-art market systems and infrastructure
- Developing a rapidly expanding derivatives market
- Developing a robust mutual fund industry
- Increasing transparency through convergence of accounting standards.

Today India capital market is well known worldwide due to its attractiveness and tremendous potential to grow further. Prior to liberalization, the India capital market was not anywhere in the global picture due to outdated and conventional pattern of operation. Forget about the FIIs investment in the market, even Indian investors were not interested to put
money in the capital market. Thanks must go to the former Prime Minister Mr. P.V Narsimha Rao and Finance Minister Mr. Manmohan Singh, who is currently our Prime Minister, when on 24th July 1991, Indian economy, was opened up on substantial basis. By virtue of the opening up of the India economy, the capital market of India was not the exception. With the liberalization of the Indian capital market, too much emphasis was laid down to increase the number of investors in the market. The sign of the any develop market is the large number of buyers and sellers, who are always ready to buy and sell to provide liquidity to the fund of the investors. The Indian growth story continues. A nine per cent increase in GDP for the second consecutive year, together with unprecedented levels of foreign direct and institutional investment, helped the benchmark stock exchange indices to reach record highs. The Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are the key indicators of the health of the capital markets in India. The BSE Sensex, a basket of 30 representative stocks, rose by 47 percent over 2006. The market capitalization of the BSE increased from US$819 billion in 2006 to US$1,819 billion at the end of 2007, an increase of nearly 125 per cent. Some 106 companies floated in 2007, raising funds amounting to US$11 billion (compared with US$7 billion in 2006), making India the seventh largest market in the world in terms of funds raised. India is forecast to be the fastest growing IPO market in the first half of 2008 in the Asia Pacific region. Yet India appears to be at a relatively early stage of development which suggests that there remains substantial – perhaps enormous – potential to be tapped. This is underlined by the number of companies listing overseas. Currently, over 100 Indian companies are listed on various international stock
exchanges including New York, NASDAQ, London, Luxembourg, Dubai and Singapore.

Most stock exchanges saw at least a modest increase in companies listed in 2007. In Japan, however, many of the new listings were the result of efforts to boost recruitment of relatively small growth companies, such as on the Mothers market of the TSE, whereas the Chinese markets in particular saw large, in some cases record-breaking, IPOs. Australia’s ASX and the National Stock Exchange of India (NSE) saw notable increases in listed companies, with the former climbing to a monthly average of almost 2,000, while the NSE rose to nearly 1,300 companies. The Bombay Stock Exchange (BSE) was the largest stock exchange in the region as measured by the number of companies listed, with a monthly average of nearly 5,000 in 2007. Japan’s TSE had over 2,400 companies. Both of the mainland Chinese stock markets in Shanghai and Shenzhen still had fewer than 1,000 listed companies at the end of 2007, despite their rapid growth in market capitalisation. Hong Kong, however, had over 1,200.

Market Indices

All of the major stock market indices in the Asia Pacific region rose between 2005 and 2007. But the Composite Indices in Shanghai and Shenzhen, followed by the Hochiminh Stock Exchange’s VNINDEX, the Bombay Stock Exchange’s SENSEX, as well as the National Stock Exchange of India’s S&P CNX NIFTY, were the outstanding performers. They were the biggest beneficiaries not only of a regional shift into equities investment, but also of the increasing exposure of western funds to emerging markets. Large,
heavily oversubscribed IPOs, especially in the financial services and energy sectors, and mergers and acquisitions were important in driving big rises in these indices. Shenzhen experienced a near five-fold rise, while Shanghai was not far behind, moving from 1,191 in January 2005 to 5,261 at the end of December 2007. The other big Chinese stock exchange, in Hong Kong, also saw a significant rise. Its S&P HKEX Large Cap Index climbed by more than 100% over the same period, as did a number of exchanges throughout the region, notably those in Indonesia and Korea. There were signs of progress too in some of the frontier markets, especially the Karachi Stock Exchange where the All Share Index also rose by more than 100%.

Among the Asian stock markets, Chinese and Indonesian markets outperformed the Indian markets in terms of cumulative performance over 2003 levels. While the BSE Sensex rose by 47.1 per cent during 2007, SSE Composite Index (Shanghai, China) rose by 96.7 per cent and the Jakarta Composite Index (Indonesia) increased by around 52 per cent. Other international indices which rose appreciably in 2007 were Hang Seng (Hong Kong) by 39.3 per cent, Kospi (South Korea) by 32.3 per cent and Kuala Lumpur Comp Index (Malaysia) by 31.8 percent.

Protection of investors’ interest

The inclination of investors is greater in the market were they feel secured and safe in regard to their investment. Investors always make trade off between return, risk and protection. The returns in the Indian capital market are so high as compare to other global capital market. Though India has scored only 6 out of 10 grade still investors feel it a better market.
Scenario of stock market in some African countries

African stock markets, following in the wake of the surge in world stock markets over the past few decades, are starting to take off. Although starting from a low base, a recent IMF study shows that the region's stock markets have begun to help finance the growth of African companies but must develop further to offer broader economic benefits. In 1989, only five sub-Saharan African countries had stock markets; today, 16 countries, including Ghana, Malawi, Swaziland, Uganda, and Zambia, have them. Between 1992 and 2002, the capitalization of African stock markets more than doubled from $113 billion to $245 billion.

Despite this increase, their average capitalization (excluding the markets of South Africa and Zimbabwe) of about 27 percent of GDP is lower than in most emerging markets. Malaysia, for example, has a capitalization ratio (market capitalization relative to GDP) of about 160 percent. Moreover, the region's markets are immature: indicators of stock market development show that they are small and have few listed companies. Market liquidity is also low, with turnover ratio of less than 1 percent in Swaziland compared with about 29 percent in Mexico. Low liquidity implies low business volume and greater difficulty in supporting a local market with its own trading system, market analysis, and brokers.

Even though markets are gradually adopting electronic systems, there are still substantial African stock markets that trade manually and use manual clearing and settlement. Similarly, most markets do not have central depository systems, while some markets still have restricted foreign
participation. Such bottlenecks slow trading and induce inactivity. A number of proposals for an agenda that will promote the development of stock markets in Africa have been advanced.

**Chinese and Indian Capital Market**

China and India will fuel world growth in the coming century. These two economic superpowers, emerging from the Asia Pacific region, will shift the balance of world capital flows, both creating demand for capital and, increasingly, providing investment funds to satisfy it. As the economies and markets in the region have deregulated, the opportunities for entrepreneurs and established businesses have grown exponentially.

Outside China and India, other stock markets in the region have seen increasing investment activity, aided by the success of some specialist growth markets such as KOSDAQ and by the consolidation of some stock exchanges. For example, the Jakarta Stock Exchange and the Surabaya Stock Exchange merged to create the Indonesia Stock Exchange in September 2007. World capital markets operate in various logical and overlapping groups, such as by size of stock market, type of company, sector concentration or geographic proximity. The 2008 Grant Thornton capital markets guide for Asia Pacific is part of a series of capital markets guides that Grant Thornton International has compiled over 7 years. These guides track the emergence and development of some of these alignments. This Asia Pacific guide compares the performance of the 21 largest stock exchanges in the region, from India and Pakistan in the west, to Japan and China in the east, to Australia and New Zealand in the south.
China

"Boosted by a high rate of GDP growth, record-breaking Initial Public Offerings (IPOs) and an influx of retail investors, China's exchanges have rapidly ascended to the highest ranks of the region's stock markets. Shanghai looks set to challenge the position of the Tokyo Stock Exchange (TSE) as the biggest in the region, while Shenzhen and Hong Kong have also seen big increases in market capitalisation, turnover and liquidity. Chinese companies want to acquire brands in North America and Europe as well as distribution channels. They are becoming more confident acquirers of foreign businesses helped by an appreciating renminbi. The growth of capital markets has also had an important effect on mergers & acquisitions (M&A) activity in China. Domestic M&A activity is being fuelled by finance available from the equity markets, and it is this funding which is allowing leading companies to act as industry consolidators. There is massive untapped potential for M&A in China. Continued growth and consolidation across vast amounts of once state controlled industry is driving domestic deal flow in the private sector.

Japan

The Japanese exchanges, hampered by their low rate of GDP growth, have been unable to expand. The Tokyo Stock Exchange's (TSE) market capitalisation, turnover and liquidity have been relatively consistent, although it has failed to grow. But Osaka and Nagoya have had little turnover or liquidity in relation to their size.
A number of other stock exchanges in the region, notably those in Australia, Singapore and Malaysia, also achieved impressive growth in market capitalisation and trading between 2005 and 2007.

Emerging economies like China and India offer both opportunities for investment as well as being a source of increased competition with their large, rapidly expanding and often affluent economies. Emerging markets offer exciting growth prospects even as the global economy as a whole faces a slowdown.

**Conclusion**

In post liberalized era we achieved a lot in regard to growth in the number of transactions, turnover on daily, monthly and yearly, market capitalization, FIIIs and mutual fund investment, number of players, number of instruments, profitability, liquidity, marketability etc. Growth in these factors is definitely a signal of strength of the capital market, but this is also a reality that the Indian market has become volatile in post liberalized era. This volatility is adversely affecting the interest, of the real investors. This is the duty of the Government of India along with the SEBI to capitalize the impact of globalization and liberalization but simultaneously the continence level of the investors in the market should also be taken care of. This can be achieved by taking necessary measures to curb speculative trading and giving more emphasis on the protective measures in the Indian capital market then only real benefits of liberalization we can taste otherwise FIIIs will reap maximum benefits from our market and our small investors will suffer.