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Research Paper

Decoupling in Indian Economy with special focus to stock market

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ABSTRACT : The Indian stock markets had crashed in 2008 along with deepening of recession in the United States. This seems to indicate that fate of the Indian economy follows the fortunes of the American economy. But this relationship appears to have reversed in the last five months of this year. The stock markets of developed countries have crashed while those of developing countries are rising. The U.S. markets are down by 6 per cent and those of U.K. and France by 1 per cent. On the other hand, markets in India have risen by 48 per cent, China by 45 per cent and Brazil by 30 pe rcent. Question before us is this. Will the fortunes of India rise and fall with the American economy as has happened in 2008, or they will rise while the American economy declines as has been happening in 2009. We need to examine the causes of American economic crisis in order to unravel this question. The main reason is that wages of American workers are much higher than similar workers in India. An unskilled worker in America earns Rs. 5,000 per day against Rs. 200 in India. The cost of production of goods in America is high as a result. General motors is closing its plants in America and increasing production in its plants in India and China. It plans to import more cars from these countries into the United States instead of manufacturing them in there. Less production in America is leading to less employment. American workers have less income. They are not able to buy goods like garments and Basmati rice exported from India. This is causing loss to our exporters.

KEY WORDS : Decoupling, Stock market, World indices, Economic indicators

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INTRODUCTION

Double-dips, deflation and deleveraging may be the talk of most developed economies, but in emerging markets like India, the relevant "D" is once again "Decoupling". The coupling and decoupling of economies in general are analyzed in terms of synchronization of business cycles among different countries or regions.

Most of the empirical work supported the idea of synchronization of cycles, after the financial and trade integration that began in the late 1970s. But the recent experience in advanced economies versus emerging market and developing economies (EDEs)- developing Asia, and in particular India and China showed that there is a need to look not only at the direction of business cycles, but also at the relative levels of performance (Advandhani, 2006).

The Indian stock markets had crashed in 2008 along with deepening of recession in the United States. This seems to indicate that fate of the Indian economy follows the fortunes of the American economy. But this relationship appears to have reversed in the last five months of this year (Amling, 2004). The stock markets of developed countries have crashed while those of developing countries are rising. The U.S. markets are down by 6 per cent and those of U.K. and France by 1 per cent. On the other hand markets in India have risen by 48 per cent, China by 45 per cent and Brazil by 30 per cent. Question before us is this. Will the fortunes of India rise and fall with the American economy as has happened in 2008; or they will rise while the American economy declines as has been happening in 2009.

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