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Indian economic-policy reforms, bank mergers, and lawful proposals: The *ex-ante* and *ex-post* 'lookup'

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Abstract

Because of globalization and liberalization of the world-economy policy reforms, emerging economies have been gained popularity in academic research, especially the economics and finance areas. Indeed, India is next to China in Asian emerging markets. As of economic-policy reforms implemented in 1991, a number of sectors are being developed and restructured via mergers and acquisitions (M&As) particularly the banking sector. In this paper, we discuss India's economic-policy and financial reforms, M&As market during 2006–2010, and other policy-related aspects. In this setting, we investigate the Axis Bank–Enam Securities investment banking merger occurred in 2010. To do so, we perform *ex-ante* analysis by using the event study method, and offer lawful proposals to the *ex-post* for financial development, economic growth, and banking sector as well. We then draw fruitful conclusions through triangular linkage between the select case, post-deregulation guidelines and the current investment banking trends.
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1. Introduction

Most business entrepreneurs, billionaires and traders believe that "Business of business is Business". In economics, researchers define the term business, which is a trade that facilitates to exchange goods and services for a valid currency; thus, it inherently motivates "profit, gain, or margin". Similarly, scholars in different streams explain the term 'business' differently. However, when we think deeply it differs a great deal, which gives many insightful perceptions. Therefore, we state "Business of business is *not* only *a* Business", but it also transforms ideas, policies, system, culture, habits, technology, intelligence, and so forth. By and large, it improves communication between people, states and nations. In this setting, countless policies, laws, systems and business models have been engulfed from developed economies to developing countries.[3] In due course of time, developing world had thought about "economic stability", which created an "independent financial system" for "economic growth and sovereignty". In these processes, many business models have been developed, adopted, tested, practiced, discontinued, and eliminated as well. The model that we discuss in this paper is "mergers and acquisitions" (hereinafter, M&As).

There are three (conceptual) empirical proofs that inspired us to perform an exploratory study on economic-policy reforms and bank mergers in the Indian institutional environment. Indeed, we support our arguments and lawful proposals by the – recent investment banking merger between Axis Bank and Enam Securities, and insights from the previous studies performed in different legal settings. First, does financial development cause economic growth?[4] In Abu-Bader and Abu-Qarn (2008), Asteriou (2009), Bittencourt (2012), Singh (2010), and Yang and Yi (2008), the authors show that finance, financial system and financial development causes economic growth. In particular, the financial process improves resources for investment (e.g. foreign aid) and boosts economic efficiency under financial system *control*. More importantly, finance causes growth but growth does not cause finance. In case of foreign aid, there is positive relationship between foreign capital and economic growth.[5] Second, previous studies on bank mergers (e.g. stock returns around the merger announcement, pre- and post-merger financial performance) examined mostly in developed markets (e.g. U.S., UK, Canada), show that mergers improve bidder-banks profitability, economies of scale, productivity, and efficiency (e.g. Beccalli & Frantz, 2009; Chronopoulos, Girardone, & Nankervis, in press; DeLong, 2001; DeLong, 2003; Ismail, Davidson, & Frank, 2009; Majid & Sufian, 2006; Rhoades, 1998; Yu & Luu, 2003).[6] In fact, most studies investigate horizontal bank mergers and ignore vertical banking acquisitions.[7] Our third motive outlines: there is growing amount of research in (*on*) emerging markets in various streams, for example, policy modeling studies in economics (e.g. Bouët, Berisha-Krasniqi, Estrades, & Laborde, 2012), international strategies of emerging-markets' multinational firms (e.g. Ramamurti, 2012a), research in behavioral sciences, and so forth. With this backdrop note, we then forward to present some useful insights on mergers.

[3] See the globalization and growth in emerging markets (Stiglitz, 2004).

[4] In this course, there are three research arguments that empirically proven by different economists in different legal frameworks. The other two arguments are: does economic growth cause financial development?, and financial development and economic growth are (inter) dependent each other. Furthermore, we have reviewed some important theories, namely, financial regulation theory, and financial liberalization theory.

[5] For example, Abu-Bader and Abu-Qarn (2008), and Yang and Yi (2008) perform their studies in Egypt and Korea respectively; Asteriou (2009) examines the impact of foreign aid on economic growth in South Asia.

[6] Also, see Beccalli and Frantz (in press).

[7] Similar to horizontal mergers, does vertical (investment) banking mergers produce superior market earnings to both the acquirer and target shareholders.

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