Int. Fin. Markets, Inst. and Money 28 (2014) 182–203

Contents lists available at ScienceDirect

Journal of International Financial Markets, Institutions & Money

journal homepage: www.elsevier.com/locate/intfin

Who moves East Asian stock markets? The role of the 2007–2009 global financial crisis☆

Lihong Wang*

Institute for Financial and Accounting Studies, Xiamen University, China

ARTICLE INFO

Article history:
Received 11 August 2013
Accepted 13 November 2013
Available online 21 November 2013

JEL classification:
G15

Keywords:
Stock market interdependencies
Global financial crisis
VAR analysis
Co-integration

ABSTRACT

This paper examines the integration and causality of interdependencies among six major East Asian stock exchanges, while also considering their interactions with the USA before and during the 2007–2009 global financial crisis. The data reveal that the global financial crisis has strengthened the linkages among stock markets in East Asia. Though the influences of the Hong Kong and Singaporean stock markets have declined somewhat over time, the South Korean and Japanese stock markets become more important in the region. Finally, East Asian stock markets are less responsive to the shocks in the USA after the crisis.

© 2013 Elsevier B.V. All rights reserved.

1. Introduction

Unlike past crises, such as the 1997–1998 Asian financial crisis, the 1998 Russian crisis, the 1999 Brazilian crisis, the 2007–2009 financial crisis originated from the largest and most influential economy, the US market, and was spreading over the other countries' financial markets worldwide. This crisis therefore provides a unique natural experiment for investigating the dynamic interrelationships among global stock markets, as studies of the transmission of return shocks from one market to another are essential in finance, which have many implications for international asset pricing and portfolio allocation as well as for policy makers to develop strategies to insulate economies. Besides,

☆ The author would like to thank G. Geoffrey Booth (the Editor) and the anonymous reviewer for suggestions that substantially improved the article. The author would also like to thank the National Natural Science Foundation of China (NSFC-71302072) and the Fundamental Research Funds for the Central Universities in China (2011221051) for financial support.

* Correspondence to: Institute for Financial and Accounting Studies, Xiamen University, Siming Nanlu 422, 361005 Xiamen, China. Tel.: +86 0592 2183955; fax: +86 0592 2181787.

E-mail address: LihongWang@xmu.edu.cn

1042-4431/$ – see front matter © 2013 Elsevier B.V. All rights reserved.
http://dx.doi.org/10.1016/j.intfin.2013.11.003

the degree of integration among stock markets tends to change over time, especially around periods marked by financial crises (see, e.g., Tuluca and Zwick, 2001; Chakrabarti and Roll, 2002; Yang et al., 2003; Morana and Beltratti, 2008; Huyghebaert and Wang, 2010). As such, many of the existing studies have examined the contagion effect among global stock markets during the 2007–2009 financial crisis, and a few studies have also explored how contagion channels from stock markets in some key developed economies to the emerging stock markets (see, e.g., Dooley and Hutchison, 2009; Aloui et al., 2011; Chudik and Fratzscher, 2011; Dimitriou et al., 2013).[1]

Witnessed the 2007–2009 financial crisis, this study aims to explore how contagion transmits from the US stock market to the stock markets in East Asia, i.e. China, Hong Kong, Taiwan, Singapore, South Korea, and Japan. A special reason for selecting East Asian markets is the substantial interest of international investors in these economies. For example, Asia attracts huge volumes of capital flows compared to other emerging market regions. The average gross capital flows to the Asian region have been much higher at 67.54 billion USD than the 20 billion USD for the Latin American market and the 9.19 billion USD for the European and CIS markets over a period from 1990 to 2006. Therefore, taking into account the current financial situation in the global economy which is being affected by the US crisis, this study compares empirically the co-movements among East Asian stock markets for the period before, during, and after the crisis. An accurate assessment of the degree of co-movement could be of particular interest for academic researchers and policy makers to identify the channels of shock transmission across East Asian countries and to measure the damaging impact of the global financial crisis on the environment for investments in these markets.

Besides, by exploring the changing market interdependence between East Asian stock markets and the US market during the global financial crisis, this study is able to shed some light on the current "decoupling versus recoupling" debate. That is whether East Asia is decoupling from the global business cycle due to the slowdown of the US economy and the continued strength of growth in emerging Asia. Recent years in fact have seen an increasing trend toward regionalism in achieving economic goals of East Asian countries. As evidence, intraregional trade is growing more rapidly than extra-regional trade. Therefore, such trade ties have a tendency to synchronize the movements of East Asian stock markets (see also Raju and Khanapuri, 2009). In contrast, another view is recoupling, which focuses more on global linkages of East Asian economies. It argues that the rapid economic integration within East Asia is tightly linked to global integration. Rather than decoupling, emerging Asia, the USA, UK, and Japanese economies have in fact been recoupling (see also Kim and Lee, 2012).

Though there are plenty of studies examining the contagion effect from Asian stock markets to more mature stock markets prior to 2000 (see, e.g., Tuluca and Zwick, 2001; Chakrabarti and Roll, 2002; Huyghebaert and Wang, 2010), East Asia has received scant attention in the literature on stock market integration during the 2007–2009 global financial crisis, especially compared with its increased importance in the world economy in recent years. One exception comes from Wu et al. (2013). Using daily data during the period of July 1997 to July 2010, they investigate interdependence and financial contagion among nine Asian stock markets (Japan, Hong Kong, Taiwan, Singapore, South Korea, Indonesia, Malaysia, China, and India) and the US market. Their empirical results show that even during the 2007 US subprime crisis, the shocks from both Japan and Hong Kong, but not from the USA, have significant contagion effects on other Asian stock markets. Yet, by focusing on the transmission of the shock from the US, Japan, and Hong Kong to other seven Asian economies[2], this study fails to document

[1] Aloui et al. (2011), for example, use daily returns on stock market indices over the period from March 2004 to March 2009 to examine the time-varying dependence between the BRIC markets and the US market during the global financial crisis. Their empirical results show the dependence with the US market is stronger for commodity-price dependent markets, i.e. Brazil and Russia, than for the finished-product export-oriented markets, i.e. China and India. Using weekly data in local currencies from January 2005 to end July 2009, Chudik and Fratzscher (2011) find that while liquidity shocks (measured by the US TED spread) have a more severe impact on advanced economies, it is mainly the decline in risk appetite (measured by the US VIX index) that affected emerging market economies. Besides, Dooley and Hutchison (2009) as well as Dimitriou et al. (2013) examine the transmission of the US subprime crisis to the emerging markets and BRICS, respectively. Their results do not suggest a contagion effect for the emerging stock markets (and BRICS) through mid 2008, but their linkage with the US market reemerges in early 2009.

[2] Using the rolling co-integration analysis, Wu et al. (2013) identify four windows, in which the eleven stock market indices are co-integrated, i.e. November 2, 1998, to December 23, 1999, March 1, 2001, to February 27, 2002, April 2, 2007, to May 30,

Download English Version:

https://daneshyari.com/en/article/963994

Download Persian Version:

https://daneshyari.com/article/963994

Daneshyari.com