

**LINKAGES BETWEEN THE MALAYSIAN
AND OTHER SELECTED STOCK MARKETS
BEFORE AND AFTER THE 1997 FINANCIAL CRISIS:
EVIDENCE FROM COINTEGRATION TESTS**

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ABSTRACT

A lot of focus has been placed on the interdependence of stock markets over the last two decades in view of the trend towards market deregulation and globalization of economies. Therefore, this paper attempts to examine the linkages among the stock markets pre- and post-1997 financial crisis. This paper analyzes the linkages between the Malaysian stock market with the United States of America (US), Hong Kong, Taiwan, South Korea, Singapore, Thailand, Indonesia and Philippines using pairwise cointegration. The study uses weekly data from January 1994 to Jun 2001. Johansen and Juselius(JJ) (1990) cointegration approach is used to examine the linkages among the stock markets following the methodology of Azali, M.'s (2000) paper. Before proceeding with the cointegration tests, the time series data was checked for stationarity. The results of the paper show that the international comovements among the stock markets has changed pre- and post-1997 crisis. The evidence shows the existence of linkages between the Malaysian stock market and some of the ASEAN stock markets, such as Thailand, Indonesia and Philippines during the pre-1997 financial crisis period. However, the trend changed during the post-1997 financial crisis. The Malaysian stock market is found to be cointegrated with the US, Hong Kong, Taiwan and Thailand stock market post-July 1997. In addition, Granger's causality tests suggest that the US, Hong Kong and Thailand stock market "causes" the Malaysian stock market during post-July 1997 period which means that the influence of the US, Hong Kong and Thailand stock market has substantially increased since July 1997. However, by acknowledging that not all the stock markets display a common trending behaviour, there still exists potential long run benefits from diversifying investment portfolio across selected countries, such as Singapore.

GLOSSARY OF ABBREVIATIONS

Akaike's Information Criterion	(AIC)
Augmented Dickey Fuller Test	(ADF)
Difference-stationary Process	(DSP)
Dow Jones Industrial Average Index	(DJIA)
Econometric Views	(EIEWS)
Hang Seng Index	(HSI)
International Asset Pricing Model	(IAPM)
Jakarta Composite Stock Price Index	(JCSPI)
Jakarta Stock Exchange	(JSX)
Johansen and Juselius	(JJ)
Korea Composite Stock Market Index	(KOSPI)
Korea Stock Exchange	(KSE)
Kuala Lumpur Stock Exchange	(KLSE)
Kuala Lumpur Stock Exchange Composite Index	(KLSECI)
Morgan Stanley Capital International	(MSCI)
Philippines Stock Exchange Composite Index	(PSECI)
Singapore Exchange Securities Trading Limited	(SGX-ST)
Stock Exchange of Hong Kong Limited	(SEHK)
Stock Exchange of Singapore	(SES)
Stock Exchange of Thai Index	(SET)
Straits Times Index	(STI)
Straits Times Industrial Index	(STII)
Taiwan Capitalization Weighted Price Index	(TAIEX)
Taiwan Stock Exchange Corporation	(TSEC)
Trend-stationary Process	(TSP)
United Kingdom	(UK)
United States of America	(US)
Vector Autoregression System	(VAR)

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